Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics

Bachelor thesis

Analysis of Euro Currency in Slovakia

Róbert Hallon

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Department of Economics

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Róbert Hallon

Business and Administration

Thesis title

Analysis of Euro Currency in Slovakia

Objectives of thesis

The aim of the thesis is an analysis of Euro currency in terms of its impact on Slovakia since its introduction in 2009 and possibilities of Euro currency in the future (to come up with some prognoses and if they are bad, find some solutions which can help prevent them).

Methodology

study of documents, interviews with experts, SWOT analysis, statistical methods

The proposed extent of the thesis

30-40 pages

Recommended information sources

1.Bagus, P. 2010. The Tragedy of the Euro. Auburn (Alabama, USA) : Ludwig von Mises Institute. 142 p. ISBN: 9781610161183.
2.Balko, L. 2006. Než k nám príde Euro. Bratislava (Slovakia) : EPOS. 223 p. ISBN: 8080576610.
3.Dědek, O. 2013. Doba Eura. Prague (Czech Republic) : Linde Praha. 336 p. ISBN: 9788072019335
4.Lacina, L. 2010. Euro: ano/ne? Prague (Czech Republic) : Alfa. 319 p. ISBN: 9788087197264
5.Marsh, D. 2011. The Euro. The Battle for the New Global Currency. New Haven (Connecticut, USA) : Yale University Press. 352 p. ISBN: 9780300176742

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The Bachelor Thesis Supervisor

Ing. Tomáš Maier, Ph.D.

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prof. Ing. Miroslav Svatoš, CSc.	**Ing. Martin Pelikán, Ph.D.**
Head of department	Dean

Prague on 11. 03. 2015

Affidavit

I declare, that I developed my bachelor thesis "Analysis of Euro currency in Slovakia" independently under the leadership of the supervisor of the bachelor thesis using literature and other information sources that are cited in the work and listed in the bibliography at the end of the work. As the author of the providied thesis I further declare that in the context of its creation I did not infringe the copyright of third parties.

Prague March 16, 2015 ___________________________

Acknowledgement

I would like to take this opportunity to thank my supervisor of work Ing. Tomáš Maier, Ph.D. for his valuable advice and comments, further I would like to thank Prof. Žarko Lazarević, Ph.D. and PhDr. Juraj Alner, for their provided interview.

Analysis of Euro currency in Slovakia

Summary

This bachelor thesis mainly deals with the analysis of the Slovak economy since the introduction of the Euro 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

Content

Introduction

Nowadays, there are nineteen countries of the Eurozone. The first countries started to use the Euro on January 1, 1999. Since the first introduction of the Euro, eight more countries have joined the Eurozone, and there are also countries that use the Euro as their domestic currency although they are not members of the Eurozone or the European Union. Before a country is allowed to use the Euro as their domestic currency, it has to meet so called Euro convergence criteria (Maastricht criteria) that determine certain conditions of the adoption of the Euro. Slovakia started to use the Euro as its domestic currency on January 1, 2009 as the second country of the former Eastern bloc.

It has to be taken in consideration that the adoption of the Euro does not bring only positives. It is a commitment for the country, its companies and inhabitants to obey rules of the European Central Bank and bigger countries like Germany or France that have the strongest influence in the development of the Euro. Small countries like Slovakia, Slovenia, Estonia and others, do not have big chances to affect their economies as same as countries with their own currencies. They have to involve in projects that might not be in their interest (EFSF, ESM) and also deal with the compliance of the strict regulation.

On the other hand, acceptation of the Euro increases the credibility of a country. Credibility attracts investors what leads into the job growth and finally into the reduction of the unemployment. Unfortunately, this advantage is not such significant due to the economic crisis that caused outflow of investors especially in the first two years of its influence. People use strong international currency that is usable all over the world. It is not only used by the most of the Europe, but it could be also used in countries where the Euro is not their domestic currency, or at least there is no problem with exchange.

Today, after more than six years of usage of the Euro in Slovakia, we are able to say how it has influenced the economy of the country and lives of people. We can say if it was a good decision to introduce the Euro in Slovakia and what are strengths, weaknesses, opportunities and threats that this phenomenon has brought and will possibly bring to us.

The aim of the work and the methodology

The aim of the work

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. If those possibilities are bad, the aim is also to come up with possible solutions. Further the thesis points out the both advantages and disadvantages of the introduction of the Euro, and at the end it sums up the correctness of the decision to introduce the Euro in Slovakia in 2009. In the other part of this thesis there is compared the current situation of the Slovak economy with the situation in other economies of the Eurozone in terms of the inflation, growth of the GDP, minimum wages, unemployment and the total public debt, which are currently the most discussed issues of the Eurozone. The aim is also to explain rescue funds of the Eurozone. The EFSF, which caused the fall of the government in Slovakia and the ESM, which was approved despite its controversial conditions. On the basis of opinions of experts and the knowledge acquired during the research the thesis sums up strengths, weaknesses, opportunities and threats of the Euro and possible results of ignorance of the biggest threats according to the author of the thesis.

The methodology

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 sources, 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 Euro currency.

1. The history of the European monetary integration

Talking about the history of the European monetary integration, it is obvious that the idea of a single currency has not developed from one day to another. It was a long process leading into the creation of the European Monetary Union (Eurozone).

Before the monetary union could be formed, nations had to unite their economies in terms of creating a free trade zone, customs union and a single market. *Every step ties the previous and develops him.* (Balko, 2006) Therefore was created the European Economic Community (today's European Union) which existence is declared in the Treaty of Rome. The Treaty of Rome was signed on March 25, 1957 but it came into force on January 1, 1958. This Treaty does not declare the monetary cooperation but questions of single economies of members of the European Economic Community. As there was no single currency, it was very important to maintain a fixed exchange rate. In the sixties was the monetary policy tied to the Bretton-Wood's system. *Under the Bretton Wood's system, each currency stood in a fixed relationship to the dollar, and thereby to gold.* (Bagus, 2010) *This system was cancelled in 1973 because it could not prevent a big fluctuation of exchange rates of some countries*. (Balko, 2006) After the cancellation of Bretton Woods's system the idea of a single currency has got more real.

1.1 The Werner Plan

The Werner plan had been the first attempt to establish a common fiat currency in Europe. It was drawn up by a group surrounding Pierre Werner, Prime Minister of Luxembourg, and presented in October of 1970. (Bagus, 2010) Werner's plan consisted of three stages that were supposed to be fulfilled until 1980. According to (Bagus, 2010), *in stage one, budgetary policies were coordinated and exchange rate fluctuations were reduced. The third stage fixed exchange rates and converged economies. But it was not clear how to get from the first to the third stage; stage two had never been spelled out.* However, according to (Balko, 2006), *in the second stage was supposed to be established a single system of national banks*. On the web pages of the European Commission[1] is published the original of the Werner plan where is clearly declared the first and the final stage but as (Bagus, 2010) said the second stage has never been spelled out. The Werner plan was linked with the system "The Snake in the Tunnel" which worked in the first half of the decade of the seventies but as countries were leaving it, the Werner plan failed.

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[1] **WERNER, Pierre. *Report to the Council and the Commission on the realization by stages of economic and monetary union in the Community: [Werner report (definitive text)]*. Luxembourg, 1970, 68 p. Available from: <http://ec.europa.eu/archives/emu_history/documentation/chapter5/19701008en72realisationbystage.pdf>**

1.2 The European Currency Unit (ECU)

After the failure of the Werner plan, there was the other action that could be considered as an attempt to introduce a single currency. It was so called the European Monetary Cooperation Fund (EMCF), as an independent organ of the Council of European Community. *It was supposed to reduce exchange rate variations of member states by implementing a monetary policy in the field of the monetary reserves saved in national banks of member states.* (Balko, 2006) Currencies were compared by the European Unit of Accounting (EUA). However, the unwillingness to hand over powers to the central organ led into the failure of this project.

In 1979 representatives of central banks of members of the European Community agreed to establish the European Monetary System (EMS), based on the resolution accepted on the meeting of the Council of European Community in Bremen the year before. As same as the EMCF had its EUA, the EMS had the European Currency Unit (ECU) which was together with the Exchange Rate Mechanism (ERM) basis for the EMS. *The ECU is a unit of account of the EMS made by the currency basket of member countries which participated in certain fixed proportions according to their share in the intra-community trade. The value of the ECU was daily calculated and it varied depending on the fluctuation of exchange rates of member countries*. (Balko, 2006) The value of the ECU in certain countries (according to their fluctuation rate), in certain periods, and the percentage of their share in the intra-community trade are visible on Table 1. According to the deal between members of the European Community, the relative movement of currencies shall fluctuate in corridor of +/- 2.25 %, but it was possible to change exchange rates, based on the agreement.

Table 1: The Value of the ECU in certain countries

	March 13, 1979-Sep. 17, 1984		Sep. 17, 1984-Sep. 21. 1989		Sep. 21, 1989-Dec. 31, 1999	
Currency	Value	Share (%)	Value	Share (%)	Value	Share (%)
BEF	3,8	9,64	3,85	8,57	3,301	8,183
DEM	0,828	32,98	0,719	32,08	0,6242	31,915
DKK	0,217	3,06	0,219	2,69	0,1976	2,653
ESP	x	x	x	x	6,885	4,138
FRF	1,15	19,83	1,31	19,06	1,332	20,306
GBP	0,0885	13,34	0,0878	14,98	0,08784	12,452
GRD	x	x	1,15	1,31	1,44	0,437
IEP	0,00759	1,15	0,00871	1,2	0,008552	1,086
ITL	109	9,49	140	9,98	151,8	7,84
LUF	*	*	*	*	0,13	0,322
NLG	0,286	10,51	0,256	10,13	0,2198	9,87
PTE	x	x	x	x	1,393	0,695

Source: Own elaboration – data drawn from: ANTWEILER, Werner. European Currency Unit (ECU): A Brief History of the ECU, the Predecessor of the Euro. *European Currency Unit (ECU)*. 2011, 1 p. Available from: <http://fx.sauder.ubc.ca/ECU.html>

(*)-Belgian and Luxembourg Francs were in a currency union. Thus, the ECU basket values are combined and shown only for Belgium. (x)-Countries were not members of the European Community in those years.

1.3 The Delors Report, Maastricht Criteria

Since the system has proved, then President of the European Commission, Jacques Delors, released The Single European Act of 1986 which objective was the Single Market by December 31, 1992 and one of the long term aims was a single currency.

In 1989 The Council of European Community made a big move forward in questions of a single currency by releasing the Delors Report. The Delors Report referred to the inability of member states to handle movement of products and capital in conditions of the big market and that the convergence of their monetary politics is necessary, otherwise they would have to face monetary tensions and disproportions. *According to the report, irreversible fixing of exchange rates and adoption of a single currency is necessary*. (Balko, 2006) Single currency would require a single monetary policy towards foreign, however, it would simplify the movement of people, remove the transaction cost on the foreign exchange and suppress the currency risk what would let into the favorable investment and the economic growth. There were no exact dates but the Delors report was accepted on December 9, 1990 and started to be fulfilled.

The Delors Report consisted of three stages:

1. The first stage (1990-1994) consisted in the strengthening of the economic and monetary coordination, the elimination of exchange rates, the completing of the Single Market and the signing of a treaty (The Maastricht Treaty). The Treaty was signed on December 9, 1991 in Maastricht and set down the details of the introduction of the Euro, date of the introduction of the Euro (January 1, 1999), and predictions for the second phase. The introduction of a single currency was mandatory for member countries which signed the Treaty.
2. In the second stage (1994-1998) was founded the European Monetary Institute (today's European Central Bank) and were introduced conditions (Maastricht criteria) for single currency users:
   1. Price inflation rates had to be under a limit set by the average of the three aspirants with the lowest inflation rates + 1.5%.
   2. Public deficits had to be not higher than 3% of the GDP.
   3. Total public debts had to be not over 60% of the GDP.
   4. Long term interest rates had to be under a limit established by the average of the three governments paying the lowest interest rates + 2%.

5. Exchange rates had to stay within the limits set by the European Monetary System. (Bagus, 2010)

In 1995 in Madrid it was accepted, that the new currency would be called the Euro and that it would replace the account unit ECU in a ratio of 1:1.

3. According to the Delors plan, with the beginning of the third stage would start the usage of the Euro currency itself. The introduction of a single currency is tied with the big convergence of member countries. The fulfilling of the convergence criteria was judged by the Council of European Union and till the end of the year 1996 it was supposed to decide if countries of the European Union are able to start the third stage. In May 1998 the Council of European Union decided that all member countries except Greece met convergent criteria. However, it was not only Greece who did not start to use a single currency. There were three more countries which voluntarily refused to start to use the Euro. They were The United Kingdom, Denmark and Sweden who refused to give up their monetary sovereignty. In June 1998 were appointed the president, the vice-president and other important functionaries of the European Central Bank and there was also established the European System of Central Banks (ESCB). The third stage of Delors plan and the Euro were introduced on January 1, 1999.

1.4 The introduction of the Euro currency

However, the Euro did not become the official tender immediately. There was a three year transitional period until the Euro went into the official circulation on January 1, 2002. During the transitional period were made all necessary arrangements about the introduction of the new currency, set in the Green Paper of the Practical Arrangements for the Introduction of the Single Currency issued by the European Commission. The old currencies of members of the Eurozone were still in circulation until 2002. The Euro was firstly used only in the non-cash transactions between the ECB and banks of member states and public sector bond issues were transferred to the new currency. As far as the private sector is concerned, the European Commission was guided by the principal “no compulsion, no prohibition”, therefore, with the usage of market benefits of the transition to the new currency. *Subjects of the private law could not be forced to use the Euro against its will, but they could not refuse to accept the performance in the single currency.* (Balko, 2006)

It was necessary to require from member countries to accept the Euro as their legal tender. It had to be guaranteed, that the introduction of the Euro will not cause any change in any legal actions. Any member country must not arbitrarily end or change the commitment. There were given the fixed exchange rates to six decimal places, which were not obliged to be shortened during the rounding.

For countries which did not met Maastricht criteria or did not introduce the Euro was established the European Monetary System II (EMS II), which replaced the European Monetary System based on the ECU and the ERM. The EMS II is based on the Euro and the ERM II and mentioned countries have to define the central parity of its currency against the Euro, while in the EMS countries were supposed to define the central parity of its currency against currencies of all members.

2. Integration of the Euro in Slovakia

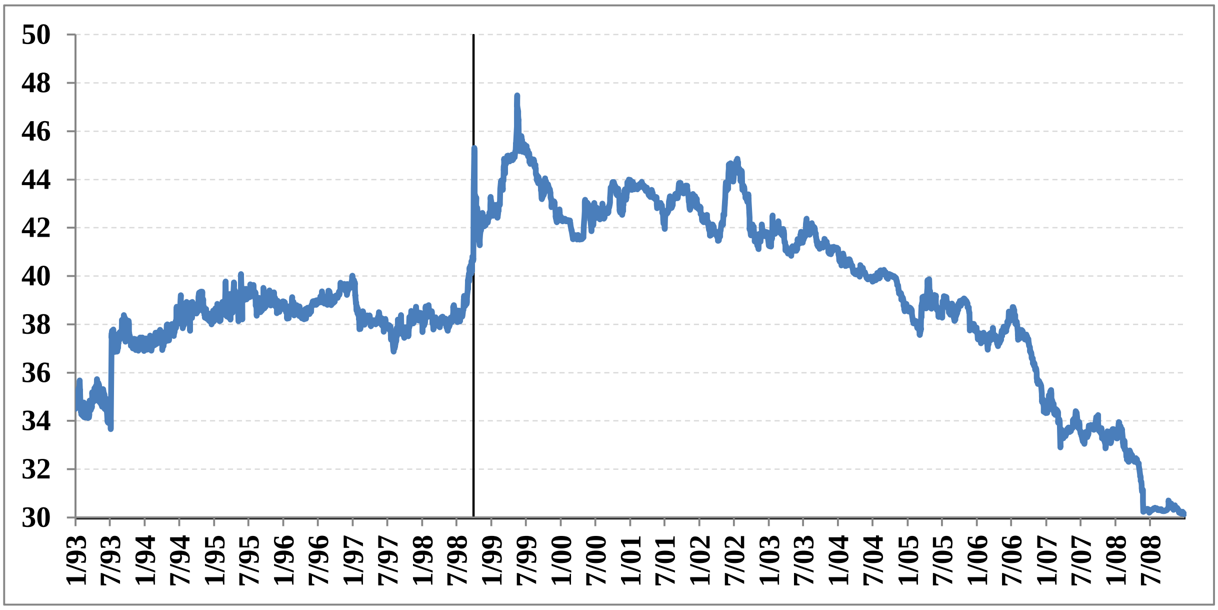
Slovakia introduced the Euro on January 1, 2009 as the second country of the former Eastern bloc (after Slovenia) and as the fourth country of countries joining the European Union on May 1, 2004 (after Slovenia, Malta and Cyprus). Before the Euro could be accepted, Slovakia had to join the European Union and meet Maastricht criteria which determine specific conditions of the introduction. Since January 1, 1993, when Slovakia was officially declared an independent state, Slovakia has used three different currencies. Firstly it was a monetary union with Czech Republic. It was a short-term temporary union shortly after the breakup of Czechoslovakia when the both countries used stamped notes and coins of the former currency, until February 8, 1993 when the both countries started to use their separate currencies, the Slovak and the Czech Crown.

2.1 The Slovak Crown

2.1.1 The development of the Slovak Crown in nineties

The Slovak Crown was the second currency used on its area since its declaration in 1993. *From the early beginning Slovak Crown was in the regime of the fixed exchange rate and it used a basket of five currencies (American dollar, German mark, French franc, Swiss franc and Austrian Schilling) as its nominal anchor. In 1994 the basket was simplified to German mark and American dollar with weights of 60% and 40%.* (Šuster, 2014) Although Slovakia had a trustworthy nominal anchor, there was a big expectation of the devaluation of Slovak Crown what led into the outflow of foreign exchange resources. Foreign-exchange reserves were deeply under the recommended value of the three-month import (about one-month import). The raise of the inflation was caused by the rising of taxes, the expectation of the devaluation of the currency and there was a deregulation of certain prices. The devaluation came in June, 1993 but in a smaller extent than it was expected (10%). *During 1994 and 1995 the National Bank of Slovakia successfully made foreign-exchange reserves appropriate to the performance of the Slovak economy.* (Šuster, 2014) Slovakia was not willing to devaluate again, so it proceeded to introduce a surcharge on import, which was lowered every year since 1994 and in 2000 it was cancelled. The fixed exchange rate kept until 1998 when the National Bank of Slovakia abandoned it and started to use fluctuating exchange rate. It resulted into the depreciation by 10% (Graph 1), however, in a few months the fluctuating exchange rate stabilized and then occurred a long-term appreciation period for the Slovak Crown. Thanks to the exchange rate that performed the task of the trustworthy nominal anchor the credibility of the Slovak Crown and its national bank grew up. The development of the Slovak Crown against the Euro (ECU) since the introduction of the Slovak Crown in January, 1993 until the determination of the fixed exchange rate in July, 2008 is visible on Graph 1. The black vertical shot in Graph 1 stands for the transition from the fixed exchange rate to the fluctuating.

Graph 1: The development of the Slovak Crown

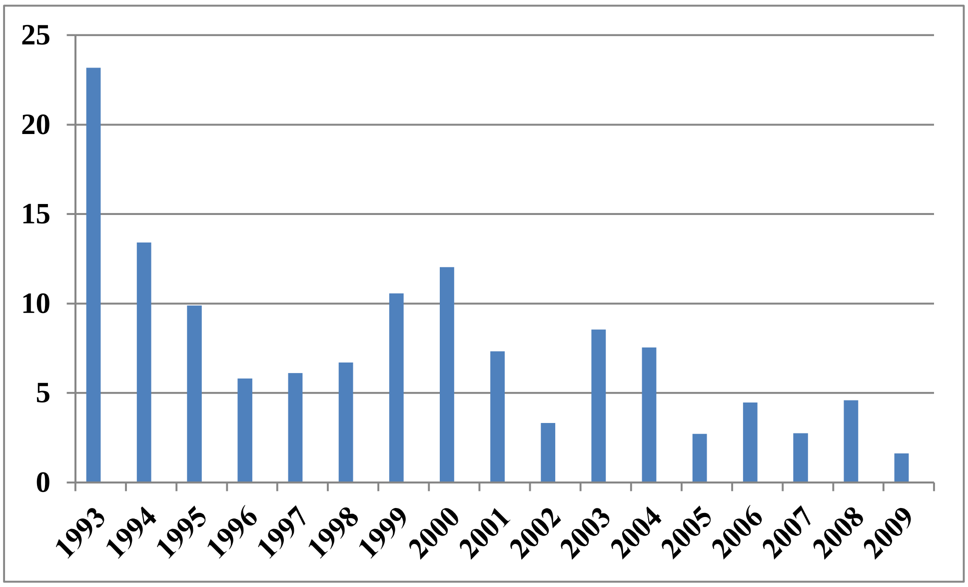


Source: ŠUSTER, Martin et al. *Centrálne bankovníctvo v stredoeurópskom priestore*. First. Bratislava: NBS, SAV, 2014, 299 s. ISBN 9788080432027

2.1.2 The development of the inflation in Slovakia before the Euro

As far as the inflation is concerned, since 1993 when the inflation stood at 23%, the National Bank of Slovakia managed to put it down on 5-6% till the mid-nineties. After switching from fixed to the fluctuating exchange rate at the end of the nineties, the inflation increased to 10-12% but the National Bank of Slovakia successfully lowered the inflation by using market tools like change of the basic interest rate and influencing of the market expectations. In 2002 the inflation reached the level of 3.4%. In 2005 the National Bank of Slovakia set inflation goals for future three years to meet Maastricht criteria in 2008. *However, the National Bank of Slovakia clearly specified that circumstances which are out of its control like changes of regulated prices, taxes, oil, energy and commodities, or sharp fluctuations of exchange rates might cause deviations of the inflation from the target.* (Šuster, 2014)

Graph 2: The development of the average inflation in Slovakia



Source: ***Own elaboration*** **– data drawn from:** ***Google*** **(online). (2015-02-13). Available from: <https://www.google.cz/publicdata/explore?ds=d5bncppjof8f9_&ctype=l&met_y=ny_gdp_mktp_kd_zg&hl=sk&dl=sk#!ctype=l&strail=false&bcs=d&nselm=h&met_y=ny_gdp_defl_kd_zg&fdim_y=inflation_type:1&scale_y=lin&ind_y=false&rdim=region&idim=country:SVK&ifdim=region&hl=sk&dl=sk&ind=false>**

2.2 The development of foreign trade before the Euro

During the economic boom 2004 - 2008, when the flow of investment was culminating, the pace of development of foreign trade had increased. However, the relatively high deficit of foreign trade remained. In 2006 it amounted to 83 billion SKK, which was associated with the import of technical equipment and other needs for new plants, as well as the still high import dependence and the supply of components for assembly businesses. Over the whole period 1993 - 2008, the value of foreign exchange for exports and imports increased almost eightfold.

2.3 Fulfilling of Maastricht criteria

The idea of the introduction of the Euro in Slovakia is closely linked with the accession of Slovakia to the European Union. Slovakia undertook to adopt a common currency by signing the treaty with the European Union on April 16, 2003. There was no timestamp that would determine the country for any actions, but there was given a commitment to meet Maastricht criteria. In July 2003 was approved the Euro adoption strategy. The strategy was specified in September 2004 when was also given January 1, 2009 as the date of the introduction of the new currency. The fulfilling of Maastricht criteria was relatively smooth. The right to introduce the Euro in Slovakia was confirmed in April 2008 when the Eurostat assessed the introduction of the Euro in terms of criteria fulfilled.

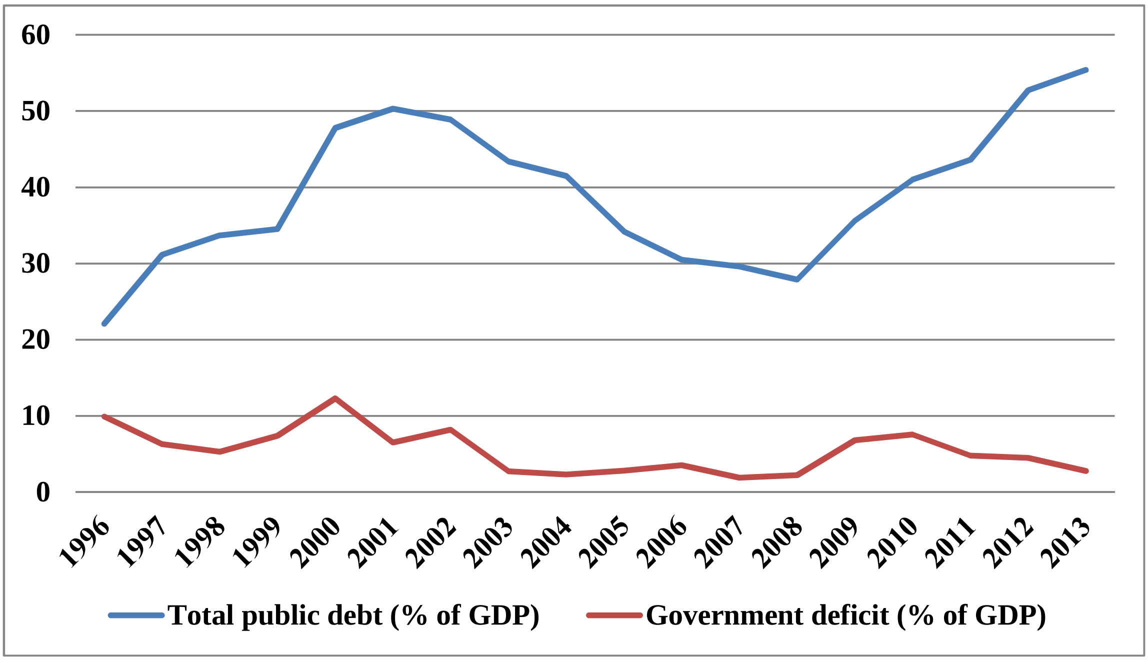
2.3.1 The criterion of the exchange rate stability

In November 2005 Slovakia entered the ERM II. There was determined a central parity 38.4550 SKK/EUR and a wide fluctuation band (+/-15%), which means that the exchange rate could fluctuate between 32.6868 SKK/EUR and 44.2233 SKK/EUR. In that time there was a rapid economic growth in Slovakia so there was no such a significant problem concerning this convergence criterion. However, in 2006 after the new government occurred, the new prime minister of Slovakia declared that the introduction of the Euro would be reconsidered to prove its advantage. In this moment the exchange rate fell under the central parity and the National Bank of Slovakia had to intervene to support the Slovak Crown. The situation stabilized after the declaration that plans for the introduction of the Euro would continue as it was planned. After this incident the Slovak Crown continued in the growing trend. At the turn of 2006 and 2007 the National Bank of Slovakia even had to repeatedly intervene to slow the growth of the Slovak Crown. After the agreement with European partners the Slovak Crown was revalued twice in March 19, 2007 by 8.5% on 35.4424 SKK/EUR and May 29, 2008 by 17.6% on 30.1260 SKK/EUR due to the fast growth of the productivity of work. Number 17.6% might seem wrong because the exchange rate could fluctuate only by +/- 15% but the reason is a reverse calculation (from the view of the Euro). *The determination of the new central parity on the lowest limit of the fluctuation band i.e. 85% of the original parity is considered a revaluation by 1/0.85 = 1.176 so 17.6%.* (Šuster, 2014) The revaluation is not common and it is even less common in such numbers. Slovakia was only the third country of the European Union after Ireland and Greece who revalued by 3% and 3.5%. Revaluation is tolerated (or even positively judged, in case of Slovak Crown) on the contrary of devaluation what would be considered as instability of a currency.

2.3.2 The criterion regarding public finances

The next criterion is related to the government deficit (which was not supposed to exceed 3% of GDP) and the total public debt (which was not supposed to exceed 60% of GDP). Although there is this criterion and a country fulfills the numbers according to official messages, the Council of Europe has to cancel the excessive deficit procedure (what it usually does in case of good numbers). Without the cancellation a country would not be allowed to introduce the Euro. The both development of the total public debt and the government deficit had a decreasing trend since 2000 until 2008 (Graph 3), what reflected on the positive evaluation by the Eurostat. The decreasing trend of these two important factors in this period was caused by the growth of the GDP which growth rate was one of the biggest in Europe. The macroeconomic policy performed by the government (growth of the work productivity, favorable business environment, transparent tax laws etc.) lead into the influx of the foreign investment what reflected in final numbers.

Graph 3: The development of the total public debt and the government deficit in Slovakia



Source 1: *Own elaboration* – data drawn from: *Finance* (online). (2015-02-15). Available from: <http://www.finance.sk/hospodarstvo/statny-rozpocet/prijmy-a-vydavky/>

Source 2: *Google* (online). (2015-02-13). Available from: <https://www.google.cz/publicdata/explore?ds=ds22a34krhq5p_&met_y=gd_pc_gdp&idim=country:sk:si:cz&hl=sk&dl=sk#!ctype=l&strail=false&bcs=d&nselm=h&met_y=gd_pc_gdp&scale_y=lin&ind_y=false&rdim=country_group&idim=country:sk&ifdim=country_group&hl=sk&dl=sk&ind=false>

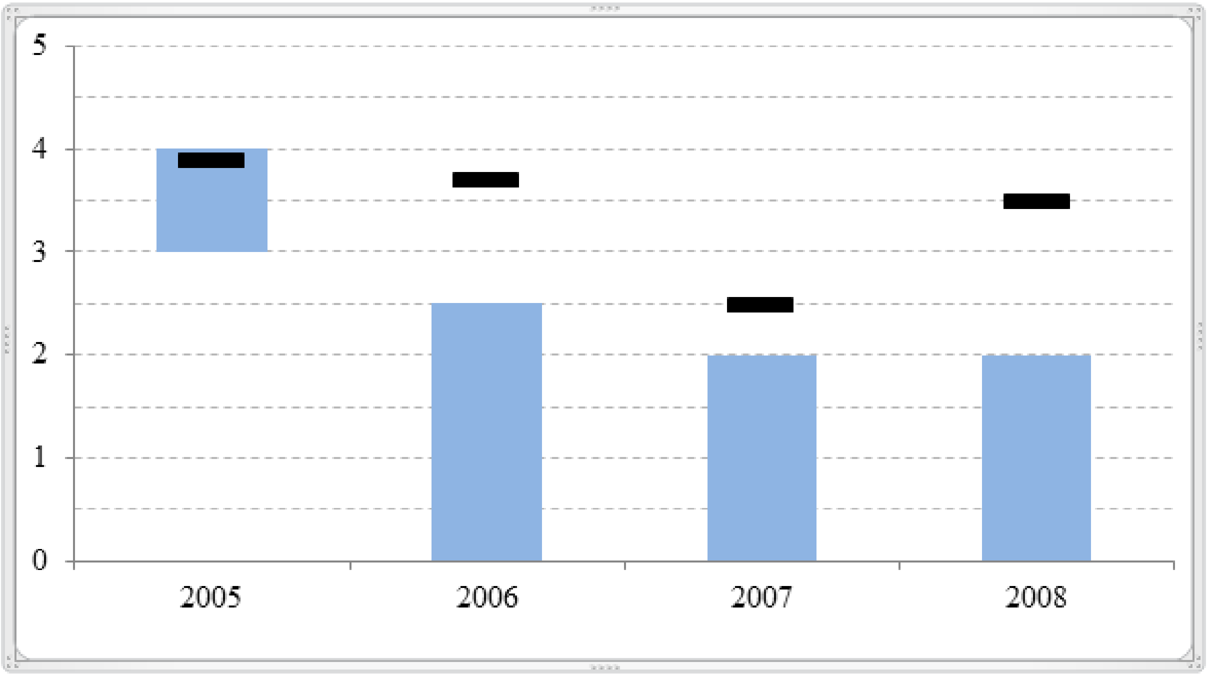
2.3.3 The criterion of the stability of the long-term interest rates

As far as the long term interest rate is concerned, the average interest rate of the last twelve months before the evaluation shall not exceed the average of three countries of the European Union paying the lowest interest rates by more than two percent. *Interest rates shall be measured on basis of rates of long-term government bonds or comparable securities, taking into account differences in definitions between member states.* (Miroslav Tučník, Jarmila Urvová , 2008) The first valid long term (10 years) government bond was issued in August 2000 when the average yield was 8.42%. The long term interest rate on the government bond had a downward trend. Since 2000 the interest rate decreased to 3.13% p.a. in 2005. At the end of 2005 the long term interest rate started to grow due to the development on the emerging market and also in the summer 2006 after the introduction of the new government and the precarious future fiscal policy. In 2007 was the interest rate stabilized and in 2008 it was evaluated as passing.

2.3.4 The inflation criterion

The last of convergence criteria is the inflation criterion. The inflation rate of the last twelve months before the evaluation shall not exceed the average of three countries of the European Union having the best results in terms of the price stability by more than 1.5%. Inflation rates have been measured by the Harmonized Index of Consumer Prices (HICP). This criterion was the most problematic for Slovakia what was also emphasized by the European Central Bank. The development of the inflation is visible on the Graph 2. Inflation goals set by the National Bank of Slovakia were not met in 2006, 2007 and 2008 which was caused by high prices of oil, food and other commodities. However, this factor also influenced the average of the three best countries what ultimately did not mean such a big issue.

Graph 4: The goals and the reality of the inflation in Slovakia



Source: ŠUSTER, Martin et al. *Centrálne bankovníctvo v stredoeurópskom priestore*. First. Bratislava: NBS, SAV, 2014, 299 s. ISBN 9788080432027

***The black points express the real inflation in those years; blue charts express range of goals.**

To sum up, European commission and the European Central Bank confirmed a compliance with criteria. *The average inflation and government deficit were reported at 2.2%, public debt reached 29.4% of GDP and the average long-term interest rate was 4.5%.* (Kyjac, 2013) There was made an application by the European commission for the annulment of the excessive deficit procedure which was accepted by the EU Council for Economic and Financial Affairs ECOFIN on June 3, 2008. At this moment Slovakia officially met the Maastricht criteria and finance ministers of member countries of the European Union supported the idea of the introduction of the Euro in Slovakia on January 1, 2009. The conversion rate was set at 30.1260SKK/EUR. Slovakia was a member of ERM II till the end of the year 2008 and the National Bank of Slovakia step by step synchronized the settings with the European Central Bank.

2.4 The process of the introduction of the Euro in Slovakia

Except for the economical preparation, it is necessary to prepare the population for a new currency. It is difficult for example for older people who used to use the Slovak (Czechoslovak) Crown for a big part of their lives and they need to learn new prices, new notes and new coins. The introduction of the Euro meant also new responsibilities for business entities, banks and all other institutions which work with money. Therefore there was a massive information campaign concerning all media to make sure that everybody would have opportunity to learn as much as possible.

2.4.1 Information campaign

The information campaign officially started on December 20, 2007 when was launched information website <www.euromena.sk> by the National Bank of Slovakia with the support of the European Commission. This soon date is quite unique because usually the candidate for the introduction of the Euro would not suppose worth of approval numbers of economy almost half a year before the final message of the European Commission. However, in case of Slovakia numbers were showing a good prognosis and the original date of the introduction of the Euro seemed highly probable. The campaign was based on the cooperation of the Work Committee for Communication led by the National Bank of Slovakia, Ministry of Finance of Slovakia and the National Coordinator and the Government Plenipotentiary of the Euro. The campaign focused on the whole population concerning so called "risk groups" (retirees, children, minorities, handicapped people) when propagation materials have to be translated into languages of minorities or adapted to handicapped people and also to small businessmen. All in all, the campaign cost almost 200 million Slovak Crowns.

2.4.2 The medial campaign

As far as the medial campaign is concerned, there were nine waves which were supposed to prepare people step by step for the new currency. It consisted especially of videos broadcasted in television and on citylights but also in a form of the sound record from radios and a printed form in newspapers. The biggest source of information was the internet where the campaign was occurring in all forms.

1. The first wave “The Eurostory”, which began exactly 300 days (March 28, 2008) before the introduction of the Euro, informed people about the schedule of the introduction of the Euro in Slovakia.
2. The second wave “The same value, different currency” (June, 2008) met the concerns of increase of prices and dropping in income.
3. The third wave “You know everything about the Euro” (July, 2008) informed people about the conversion rate (30.1260 SKK/EUR) and basic information about the introduction of the Euro (dual display of prices, changing of the Slovak Crown for the Euro in banks and the same value of currencies).
4. The fourth wave (August 2008) promoted the Code of Ethics among businessmen in which the Business Alliance of Slovakia declared to keep all the rules concerning the introduction of the new currency, especially to keep prices on the same level.
5. The fifth wave (August 2008) informed people about the dual display of prices.
6. The sixth wave “We change the currency, not the price” (October 2008) supported and promoted the Code of Ethics among population.
7. The seventh wave (November 2008) supported people to put their Slovak crowns to the bank what would help reduce the amount of cash in the circulation.
8. The seventh wave (December 2008) informed about the term of the dual circulation in the both Slovak crowns and euros, and the deadlines of changing of Slovak crowns.
9. The last wave “Every cent counts” (January, February 2009) informed people about the value of the Euro.

2.4.3 Other forms of campaign

Except for the medial campaign there were other forms of campaign. The National Bank of Slovakia in the cooperation with the Ministry of Finance issued over 7 million pieces of promotional materials (flyers, posters, brochures) with information about the Euro, its security features, schedule of the introduction etc., which were supposed to help the medial campaign with the propagation of the Euro. There was also set up a hot line “Euro Info Linka” where trained workers answered questions of callers. As far as the small businessmen are concerned, they were informed especially by the form of seminars and trainings under the auspices of the Ministry of Economy. In November 2008 together with brochure it was also delivered the “Eurocalculator” with dual display converting Slovak crowns to euros and vice versa, to every household. Schools were provided with teaching aids which were supposed to raise awareness about the Euro among students of elementary and high schools.

2.4.4 Dual display of prices

One of the basic tools of the preparation of people for a new currency is a dual display of prices which in Slovakia started on August 24, 2008 and lasted till the end of the year 2009. It was recommended to last till the half of the year 2010 as a service to the costumer.

Subjects of dual display of prices:

- Prices of goods and services
- Amounts on pay slips
- Pensions
- Social benefits
- Invoices
- Bank statements

All these subjects were supposed to be displayed in the both Slovak crowns and euros which were displayed in the conversion rate. If a costumer wanted to pay in euros before 2009 he had to pay the market-price instead of the price on the ticket (in case it was not the same). The aim was to protect costumer against frauds by the seller. Costumers could get used to prices in euros and in case of suspicion that the price is increased due to the introduction of the Euro; the costumer could attention the Slovak Chamber of Commerce and report the misconduct or attempt fraud, for what were drawn consequences.

2.4.5 Slovak euro coins

Before new euro coins could be minted it was necessary to choose its appearance. Citizens of Slovakia could choose among several variants of Slovak euro coins in November 2005 and after the approval of the National Bank of Slovakia was chosen the winning proposal. Slovak euro coins started to be minted on August 19, 2008 in Kremnica, Slovakia and till the end of the year there was minted 500 million Slovak euro coins. These euro coins were available since December 1, 2008 in starting kits for 16.60€ (500SKK). Starting kits contained 45 Slovak euro coins of all nominal values and they were available in post offices, banks and in the National Bank of Slovakia. The National Bank of Slovakia got right to print euro banknotes, but for the purpose of stockpiling the National Bank of Slovakia borrowed euro banknotes from the National Bank of Austria worth 7 billion EUR.

3. Slovakia after the introduction of the Euro

The New Year's night 2008 was not just a regular celebration. It was a beginning of a new chapter for Slovakia and its inhabitants and so the whole night was in a spirit of the new currency. However, for the National Bank of Slovakia, employees of commercial banks and managers and owners of stores, it was the peak of months of preparation. Since the May, 2008 headquarters of commercial banks were supposed to provide coins and banknotes of the new currency to their branches. They were supposed to estimate the amount of money necessary for the first days and weeks of the usage of the new currency and deliver the requirements to the National Bank of Slovakia. As far as the private stores are concerned, they were supposed to conclude a contract with the commercial bank about the frontloading. On January 1, 2009 it was possible in some ATMs to get euros only several minutes after the midnight. Banks informed people that in the first days there would be some restrictions concerning bank services. It also started the usage of the both currencies that lasted till January 16, 2009. In the campaign was referred that people shall gradually change Slovak crowns for euros. Banknotes could have been changed till the end of the year 2009 in all commercial banks and in the National Bank of Slovakia it is possible to change them unlimitedly. Coins could have been changed till the June 30, 2009 in all commercial banks and in the National Bank of Slovakia they could have been changed till the end of the year 2013.

3.1 The influence of the economic crisis in Slovakia

For Slovakia the year 2009 is and will always be the year of the introduction of the Euro. However, for the rest of the world it will always be the year of the full development of the economic crisis that had its first symptoms in the last quarter of 2008, what has strongly influenced the development of the Slovak economy. It would be only a thing of conjectures to tell how Slovakia would have been able to handle the economic crisis in case it did not introduce the Euro. Although the introduction of the new currency might have dampened the impact of the economic crisis by prevention of the currency depreciation (as it was in neighbor countries), the drop in orders and unwillingness of banks to borrow money led to the closure of factories and finally into the increase of the unemployment, slowdown in GDP growth and to the growth of the total public debt.

In fact, the most of advantages that Slovakia could have had after the introduction of the Euro were influenced by the crisis and therefore by global problems that started to occur. In November 2008 there was the lowest level of unemployment in the history of Slovakia (8,7%), but since then there was an increasing trend until February 2010 (14.9%) when it started to stagnate between 13 and 15%. Nowadays there is a decreasing trend that started in October 2013 and in the last quarter of 2014 numbers fell under the level of 13% the first time since August 2009. The decline of unemployment could be explained by the weakened influence of the crisis and therefore by the increase of the investment and orders of companies what leads into increase of purchasing power of the whole population.

The theme of the employment is closely related to the average monthly salary that has had an increasing trend since 2009 despite of relatively massive layoff. The reasons might be the payment of severances or the fact that due to the decrease of orders decreased the demand for employees (mostly less qualified people with lower salaries). However, there is still a big gap between the average monthly salary in Bratislava region (around 1200 euros) and the rest of Slovakia (around 750 euros in eastern Slovakia). Also in Bratislava region, which is according to the Eurostat one of the richest region in Europe, the number of purchasing power parity is distorted by salaries of relatively narrow group of well-paid people. According to Statistical Office of Slovak republic the average monthly salary has grown since 2009 from 744.67 euros to approximately 853.75 euros in 2014 but in fact, most of the people in Slovakia live for approximately 500 euros – 600 euros of gross salary what leads into brain drain and finally into the weakening of the economy.

As far as the public finances is concerned, as same as the development of the GDP and unemployment, the total public debt and the government deficit went the right way until the fourth quarter of 2008. On the Graph 3 we can see that they both had a long-term relatively decreasing trend and at the end of the year 2008 the total public debt was 27.9% of the GDP and the government deficit was 2.2% of the GDP. Since the beginning of the crisis the public debt has had a growing trend and at the end of the year 2013 it reached the level of 55.4% of the GDP what is close to the level of 60% which is one of the criteria (Maastricht criterion) that decides about the introduction of the Euro. Although there would not be any effect on the usage of the Euro in Slovakia, it is a sign that there have to be taken measures to stop the increasing of the debt. According to the latest message[2] of the Eurostat from October 2014, the current level of the public debt is 54.6% of the GDP. *The decrease in debt is affected by the introduction of a new methodology of national accounts ESA2010 that records volume of transactions in the economy and public sector obligations better than the old methodology.* (HN, 2014) The government is planning to introduce the package of measures that is

[2] ***Hnonline*** **(online). (2015-02-15). Available from: <http://hn.hnonline.sk/ekonomika-a-firmy-117/ficova-vlada-chysta-opatrenia-verejny-dlh-slovenska-ma-klesat-638553>**

supposed to gradually lower the debt. The main parts of the package are the improvement of the tax collection, the preservation of the value added tax on the level of 20%, the reform of the state administration and active strategy of management of cash reserves. The government deficit grew up jumping from 2.2% of the GDP in 2008 to 6.78% of the GDP in 2009. The culmination of the growth of the deficit came with the culmination of the crisis in 2010 when the level of deficit was 7.54% of the GDP. However, since then the government pulls the level of the government deficit down and in 2013 it was on the level of 2.77% of the GDP.

3.2 Foreign Direct Investment (FDI)

Another advantage that should have occurred was the FDI inward. Fortunately, Slovakia was one of countries that managed to keep the trend of growth. However, the growth of the inward significantly slowed. In the period between 2006 and 2008 the inward of the FDI was 10.7 billion EUR and in the period between 2009 and 2011 it was only 3.7 billion EUR. Except the caution of investors during the crisis there are other factors that have to be taken into the consideration. After the introduction of the Euro in Slovakia the exchange rate became more stable than in other countries of the former eastern bloc. What is good on one side, but on the other side, the exchange rates of countries without the Euro started to fall and therefore it was more valuable for other countries of the Eurozone to import products from these countries because these products became cheaper for them. However, the credibility and relatively cheap manpower made investors invest their money in Slovakia. Another reason of decrease of the growth of the FDI in Slovakia is the policy of the government that worsens the local business environment by introducing contributions and cancelling of single tax. The total FDI since 2009 when it was less than 36.5 billion EUR grew to almost 43 billion EUR in 2013. The biggest share on the FDI in Slovakia has had The Netherlands and the biggest share outside the EU has had South Korea, with whom Slovakia agreed on unprecedented elimination of tariff barriers.

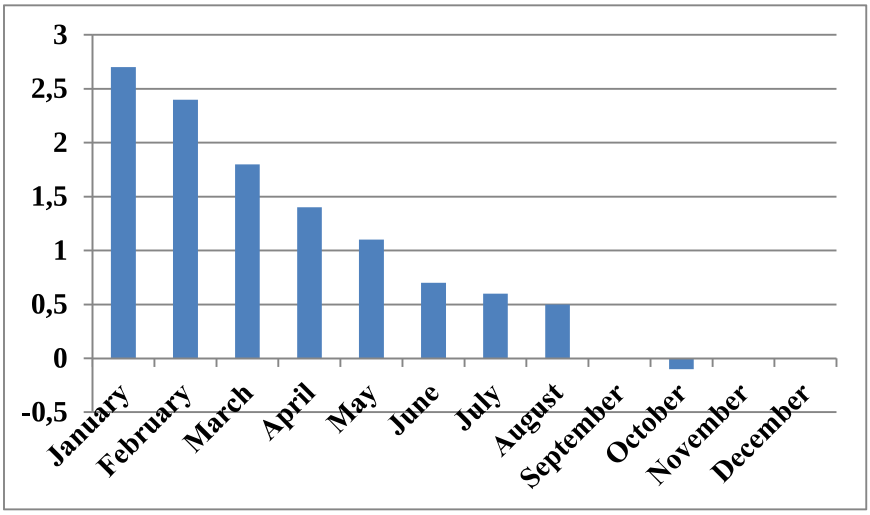
3.3 2009

3.3.1 Inflation 2009

After the introduction of the euro it was necessary to keep the level of prices. For this purpose was made the Code of Ethics where businessmen promised that they will not increase prices due to the new currency. The primary reason was to prevent frauds committed on costumers and the secondary, not less important, reason was to prevent the growth of the inflation.

It was one of the most feared reasons why people did not want the Euro to be introduced. Fortunately, the inflation had a downward trend in 2009 and on the Graph 5 could be seen that in October 2009 there was even deflation what was the lowest inflation in the history of Slovakia (-0.1%). The first reason was paradoxically the economic crisis. People started to be more careful, businessmen did not want to lose their costumers and so they avoided the speculation with prices and vice versa they motivated people by offering favorable deals. The second reason was a strict regulation of prices by the government.

Graph 5: The development of the inflation (%) in Slovakia in 2009 (HICP)



Source: ***Own elaboration*** **– data drawn from:** ***Finance*** **(online). 2010 (2015-02-15). Inflation. Available from: <http://www.finance.sk/hospodarstvo/ceny-a-inflacia/medzirocna-inflacia/>**

3.3.2 Foreign trade 2009

The growth of the foreign trade was one of the expected advantages of the introduction of the Euro due to the reduction of transaction costs and stabilization of the exchange rate. The foreign trade had already enlarged when Slovakia joined the European Union and joining the Eurozone was supposed to reinforce the foreign trade especially with its other members. However, because of the beginning of the crisis, numbers of the year 2009 were significantly worse than the year before. Already in January the export fell by 33.3%, the import by 28.6% and the total turnover of export and import fell by more than 2.5 billion EUR against the January of the previous year. This was the continuing trend of the last quarter of 2008 when the first symptoms of the crisis started to appear. The starting crisis also influenced the growth of the foreign trade in 2008 when the index of the growth of the both import and export was lower than in 2007. In 2009 the index of the export against the previous year was 80.2%. On the contrary of 2008, there was a positive balance of export (39.7 billion EUR) and import

(38.5 billion EUR) in 2009 (946 million EUR), but the export volume decreased by more than 10 billion EUR and numbers were lower than in 2006. Together with the export weakened the import especially because of the lower domestic demand and the index against the previous year was 77.1% what is even more significant than in the case of import. The biggest trade partner of Slovakia in 2009 was Germany where the total turnover of import and export was almost 14.5 billion EUR what, however, is by 4.6 billion EUR less than the year before. Outside the European Union it was Russia where the total turnover of import and export was almost 4.9 billion EUR what was lower by 2.4 billion EUR in comparison with the previous year. These countries are traditionally the biggest trade partners of Slovakia (Russia as the biggest trade partner outside the EU) until today. The most exported and also imported commodities were electronic machinery and apparatus and their sections and components but the total turnover in this field decreased by 9.6%.

3.3.3 GDP 2009

As far as the GDP is concerned, the GDP started to decline already in the last quarter of 2008 when it decreased by 4.3% against the third quarter. This trend continued also in 2009 when the GDP fell by 2.68% at constant prices and by 6.83% at current prices in comparison with 2008. It was the biggest fell down in the history of independent Slovakia. The fell down between the last quarter of 2008 and the first quarter of 2009 was 14.5% in current prices and 14.91% in constant prices. The biggest fell down registered field of agriculture, forestry and fishing (by 29.7%) and industrial field (by 24.9%). On the other hand, there was a growth in the field of art, entertainment and recreation by 36.7% what in my opinion might be explained by the growth of the credibility of the country by introducing of the Euro and despite the crisis it led to the growth of tourism. There was also a significant growth in the field of financial and insurance activities (by 12.3%) and also in fields of information technologies and social services (the both by around 10%).

3.4 2010

3.4.1 EFSF

Year 2010 is the year of the culmination of the economic crisis and also the year of establishment of the common project of members of the European Union, financed by members of the Eurozone, called The European Financial Stability Facility (EFSF). The EFSF was officially agreed on May 9, 2010 in Luxembourg where is also settled the headquarters. It can be described as a set of economical vehicles based on loan guarantees from the International Monetary Fund. The purpose of the existence of the EFSF is to help indebted countries of the Eurozone which endanger the stability of the Euro by their poor economic condition. The main impulse of establishment of the EFSF was the economic crisis in Greece. Every country of the Eurozone vouches for a certain amount of money which is available for an indebted member of the Eurozone to refinance its poor economic condition, by which is meant the incapability of paying its debts. In fact, the EFSF provides loans for indebted countries, using money of other members. Originally the capital base was supposed to be 440 billion euros with effective lending capacity 250 billion euros but on October 13, 2011 the effective lending capacity was enlarged to 440 billion euros so the capital base was enlarged to 779.8 billion euros. The EFSF had a character of a temporary fund which was later replaced by the European Stability Mechanism (ESM) which was established in 2012.

As far as the Slovakia is concerned, the EFSF caused a big wave of indignation. Slovakia did not agree with the idea of creating of the EFSF from the very beginning because all the countries that were guaranteed loan (Greece, Ireland, Portugal) had higher GDP, higher pensions for retirees, higher income per-capita etc. Slovakia was supposed to pay 0.99% of the whole package which is around 4.37 billion euros. The real problem came with the idea of enlargement of the capital base when Slovakia was supposed to pay around 7.73 billion euros. Slovakia was the last country that approved the enlargement but it was only for the price of the fall of the government. The then President of the National Council of the Slovak Republic and the chairman of the ruling political party SaS Richard Sulík, commented this affair: *How a poor but rule-abiding euro-zone state must bailout a serial violator with twice the per-capita income, and triple the level of pensions – a country which is in any case irretrievably bankrupt?, How can it be that the no-bail clause of the Lisbon treaty has been ripped up?, I would rather be a pariah in Brussels than have to feel ashamed before my children.* (Markman, 2011)

3.4.2 Foreign Trade 2010

The situation of the foreign trade in 2010 partly stabilized, but it still did not achieve before crisis numbers. The index of the export against the previous year was 121.5% but it was still lower by 1.25 billion EUR in comparison with 2008. The index of the import against the previous year was 122.5% but it is by almost 2.8 billion EUR lower than in 2008 and by more than 0.5 billion EUR lower than in 2007. There was a positive balance between export (48.3 billion EUR) and import (47.5 billion EUR). The biggest trade partner was Germany with a total turnover of 16.8 billion EUR and the biggest trade partner outside the EU was Russia with a total turnover of 6.6 billion EUR. The most imported and exported commodities were as same as the year before electronic machinery and apparatus and their sections and components. As far as the car industry is concerned, it managed to recover from almost 30% fall and the index against the previous year was 125.5% and it was on a good way to get on pre-crisis numbers when vehicles, its parts and accessories were the most exported commodity.

3.4.4 GDP 2010

In 2010, the situation concerning the GDP stabilized. The GDP grew up by 3.6% at constant prices and by 5.34% at current prices. The main reasons were relaunch of foreign trade, higher household consumption and increase in investment. As for the development in certain fields, there was a drop in the field of agriculture, forestry and fishing (by 12%), in construction (by 3%) and financial and insurance activities (by 2.4%) which paradoxically recorded growth in the previous year. The other fields recorded increase in this year, especially industry (by 15%) which is caused by the mentioned relaunch of foreign trade and higher household consumption.

3.5 2011

3.5.1 Foreign trade 2011

Year 2011 was the first year when the situation stabilized and numbers got over the pre-crisis situation. Although the growth was slower than the previous year, it was a good message for the future. The indexes of the export and import against the previous year were approximately same. It was 117.6% in export and 117.4% in import and as same as the previous year there was a positive balance (over 1 billion EUR). The total turnover with the most significant trade partner, Germany, also surpassed the pre-crisis level. The total turnover of export and import was almost 20.5 billons EUR. The biggest trade partner outside the EU remained Russia with the total turnover of 8.25 billion EUR. However, the change occurred on the position of the most exported commodities which became vehicles, its parts and accessories which overcame electronic machinery and apparatus and their sections and components (which remained the most imported commodity) for the first time since 2007. This was caused by reorientation of car factories on smaller, cheaper and more available cars.

3.5.2 GDP 2011

The GDP was influenced by consolidation measures of the government and by enlarging of consumer and food prices. It means that the growth of the GDP was lower than in 2010 what was supposed by the government and experts since the beginning of the year. The GDP in 2011 grew by 4.4% in current prices and by 3.2% in constant prices. Growth was recorded in all fields except the field of social services that decreased by 1.37%. The interesting fact is that the most significant growth recorded the field of agriculture, forestry and fishing (the first time during the crisis). It grew by 25.28% what is the most significant growth of this field since 2007.

3.6 2012

3.6.1 ESM

The European Stability Mechanism (ESM) is a successor of the EFSF which was established on September 27, 2012 in Luxembourg. The ESM has many common features with the previous fund. It is a set of economical vehicles based on loan guarantees in which every country of the Eurozone vouches for a certain amount of money. The money is available for an indebted member of the Eurozone, to refinance its poor economic condition that might endanger the stability of the Euro currency. On the contrary of the EFSF which was supposed to be only a temporary fund originated mostly because of the crisis in Greece and was dependent on the International Monetary Fund, the ESM was established as a permanent fund with capital base of 700 billion euros and effective lending capacity of 500 billion euros and it works as an European version of the IMF. The other differences are the opportunity of private sector to help indebted countries, in case of exceptional currency exposure it is possible to decide by qualified majority of 85% and the ESM will have a preferred creditor status against the other creditors. Indebted country shall not be able to restructure the debt to the ESM and in case of bankruptcy, it will have to pay accounts receivable to ESM before other creditors and it shall not pay any money to other debtors if there are outstanding commitments to EMS or IMF. Members of the Eurozone are supposed to pay 80 billion euros of this package, the rest is in form of the capital on request and guarantees. However, in the treaty is stated that the Board of the Governors (finance ministers of member countries) can change the amount of the capital base. The ESM is legally unassailable treaty which obliges members of the Eurozone to irrevocably and unconditionally pay any capital call made on them within seven days of receipt of such a demand. It is not possible to withdraw from the ESM and it is also impossible to base, sell or donate the share on the permanent fund. The ESM shall help to an indebted country in case of weak risks to macroeconomic equilibrium by providing of a preventive aid or in case of serious problems it provides aid which shall be conditioned by proper macroeconomic adjustment program.

Slovakia vouches for 0.82% of the whole package, what is 5.77 billion euros. As same as with the EFSF, there was a wave of indignation against the ESM. However, for the approval was needed 90% of support of countries of the Eurozone and as the share of Slovakia is 0.82%, there was no other way than only approve the proposal.

3.6.2 Foreign trade 2012

In 2012 continued the growing trend of the foreign trade which has become the most significant share on the GDP. However, the growth starts to be less notable than in previous two years. The openness of the Slovak economy and low absorptive capacity of the domestic market creates a need to search sales opportunities in foreign markets. In 2012 there was the biggest positive balance between the export and import (3.55 billion EUR) what only supports the fact that Slovakia is absolutely export country and it is dependent on demands of its foreign trade partners, most of which are countries of the EU (83.3% of export), Russia and China. In year 2012 it was the first time in the history of Slovakia when there was a positive balance in every month. The index of the growth of the export was 109.4% and the index of the growth of the import was 105.1%. The biggest trade partner remained Germany with the total turnover of more than 23 billion EUR and the biggest trade partner outside the EU remained Russia with the total turnover of 8.5 billion EUR. The biggest export commodity remained vehicles, its parts and accessories, and the biggest import commodity was electronic machinery and apparatus and their sections and components.

3.6.3 GDP 2012

Economy of Slovakia fared quite well in comparison with other countries of the European Union. The GDP grew by 3.28% in constant prices and by 2.89% in current prices. It was one of the highest growths of the GDP in the European Union and the highest in the Eurozone. It was mainly caused by the amount of export (especially cars and its components) but on the other hand, Slovakia had a low level of the domestic consumption caused by high unemployment and consolidation measures of the government. As far as the specific fields is concerned, there was recorded growth in all of them, but the most significant growth against the previous year was measured in the field of information technologies, by 10.12%.

3.7 2013

3.7.1 Foreign trade 2013

The growth of the foreign trade was milder than the previous year. The index of the growth of the export was on the level of 103.3% and the import was on the level of 102.3%. However, the record in the biggest positive balance from the previous year was overcome again. The amount of the balance was more than 4.2 billion EUR. This result was achieved despite there was a mild deficit in December (deficit in December is almost regularly caused by Christmas) and lower export to the biggest trade partner outside the EU, Russia. Russia still remained the biggest trade partner outside the EU despite the decrease in import from Slovakia. The total turnover was almost 8.7 billion EUR and the turnover with the biggest trade partner of Slovakia, Germany, was more than 22.8 billion EUR. The most imported and exported commodities were vehicles, its parts and accessories.

3.7.2 GDP 2013

As same as in the past few years the most important part of the GDP was the amount of export. However, the interesting fact is that in the last quarter of 2013 grew up the amount of the domestic demand (including household consumption, investment and government) which was the first time since 2011. The GDP grew by 1.95% in current prices and 2.7% in constant prices. As far as the certain fields is concerned, the most significant growth recorded the field of agriculture, forestry and fishing (by 15%) but on the other hand, after a long time a drop was recorded in the industrial field (by 4.91%). Except of industrial field, declined the field of construction (by 3.38%) and the field of information technologies (by 0.75%).

3.8 2014

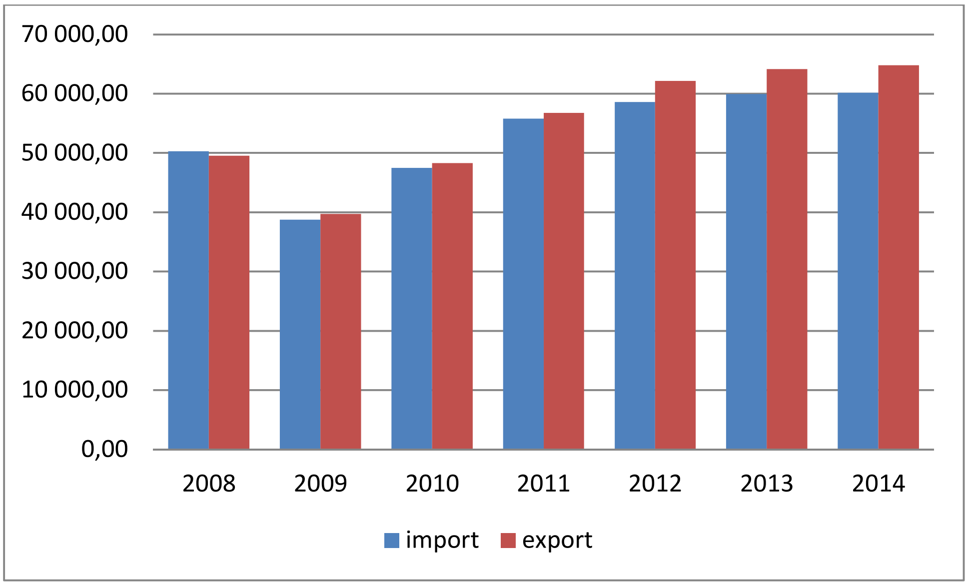
3.8.1 GDP 2014

As the GDP of the last quarter of 2014 has not been published yet, it is not possible to determine the total GDP of this year. However, as far as the development of the GDP in the first three quarters is concerned, it was significantly influenced by the growth of domestic and foreign demand which was a continuing trend from the last quarter of 2013. The contribution of household, government and investment on the growth of the domestic demand was the most noticeable in the second quarter when the GDP grew by 2.6% against the same period in the previous year. The future problem of economic development of Slovakia might be the impending recession in the Slovakia’s largest trading partner Germany, which recorded a mild decrease in the economic growth in the second quarter. In fact, Slovakia is recording one of the best results concerning the growth of the GDP in the Eurozone. It recorded growth by 2.5% in the third quarter of 2014. As far as the certain fields are concerned, the most of the fields recorded growth, among which the field of information technologies recorded the biggest growth by almost 10%. On the other hand, there was a decrease in the field of agriculture, forestry and fishing (by 2.92%), field of construction (by 2.84%), field of professional and scientific activities and administrative services (by 2.92%) and in the field of entertainment (by 2.5%).

3.8.2 Foreign trade 2014

The foreign trade in Slovakia and the whole EU in 2014 was influenced by the conflict in Ukraine, when Russia banned food import from countries of the EU, Australia and USA. The result was decrease of export to Russia by almost 0.5 billion EUR and the total turnover until November 2014 was lower by almost 18% in comparison with the same period of the year before. Despite of it, Russia remained the biggest trade partner outside the EU. In 2014 there was barely some growth in export and import. The index of the growth of the export was 101% and the index of import was 100.4%. However, there was continuing a trend of breaking records in height of balance. This year it was almost 4.65 billion EUR. The biggest trade partner remained Germany. The total turnover (21.5 billion EUR) was lower, but only because of the decrease of the import to Slovakia. The export to Germany kept its growing trend. The most exported and imported commodities remained vehicles, its parts and accessories.

Graph 6: The development of the foreign trade in Slovakia

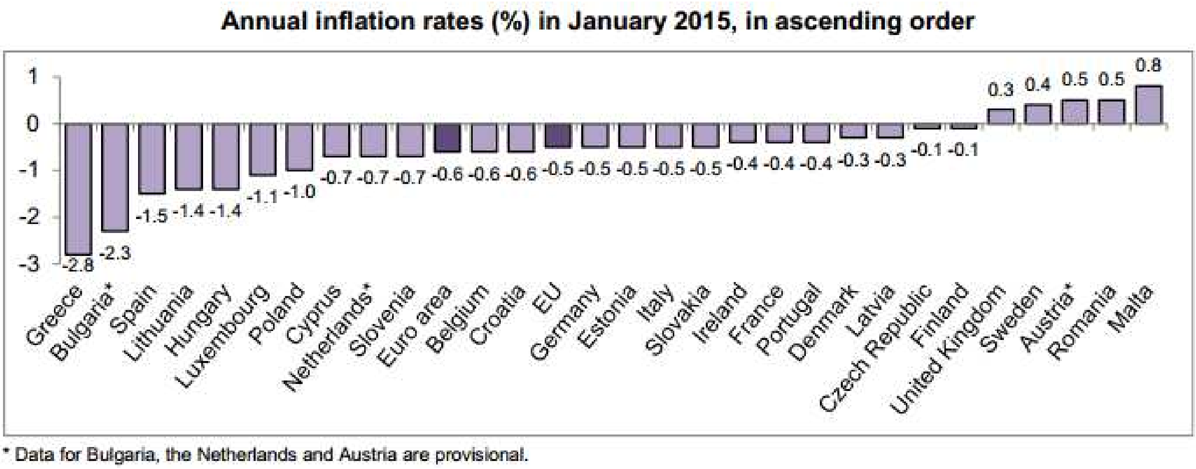


Source: *Own elaboration* – data drawn from: *Statistical office of Slovak republic* (online). (2015-03-13). Available from: <http://statdat.statistics.sk/cognosext/cgi-bin/cognos.cgi?b_action=cognosViewer&ui.action=run&ui.object=storeID(%22i836C9B8D31544FA8B54981B97E3CABF2%22)&ui.name=Zahrani%C4%8Dn%C3%BD%20obchod%20pod%C4%BEa%20mesiacov%20%5bzo0001ms%5d&run.outputFormat=&run.prompt=true&cv.header=false&ui.backURL=%2fcognosext%2fcps4%2fportlets%2fcommon%2fclose.html&run.outputLocale=sk>

4. The current situation of Slovakia against the other countries of the Eurozone

In Slovakia is currently continuing a trend of deflation (January 2015, deflation of 0.5%). This trend, however, is recognized in the whole Eurozone. The main reasons are slow economic growth and low price of oil. Currently, the exchange rate of the Euro against the American dollar is slowly falling and it is getting to the long-year minimums. The whole Eurozone recorded in January the annual deflation by 0.6%, what is a fall by another 0.4% since December 2014. According to these numbers, Slovakia is recording better numbers concerning the inflation, than the most countries of the Eurozone. The HICP of Slovakia in January 2015 with the basic period of the average of year the 2005 (2005=100) was 122.22% while in January 2014 it was 122.85%. To compare these numbers with the Eurozone itself, the HICP of the whole Eurozone in January 2015 was 116.03% while in January 2014 it was 116.75%. The biggest fell down in HICP between January 2014 and January 2015 was recorded in Greece where prices fell down by 3.31% and the biggest increase was recorded in Malta where prices increased by 0.93%. On the approximately same level of price increase as Slovakia is currently Germany and Italy where prices annually fell down by 0.6% (in Slovakia by 0.63%). As for the change since 2005, the similar level of HICP as in Slovakia is currently in Finland, where the HICP is 121.03%. These are another indicators proving that Slovakia, with the whole Eurozone, is dealing with the deflation. The biggest deflation was recorded in Greece (by 2.8%) and only two countries of the Eurozone managed to reach a positive inflation. They were Austria (by 0.5%) and Malta (by 0.8%).

Graph 7



Source*: Eurostat* (online). (2015-03-02). Available from: <http://ec.europa.eu/eurostat/documents/2995521/6650000/2-24022015-AP-EN.pdf/9d0fc2f8-21ba-425e-956c-32018aded18d>

It is obvious that it is necessary to do something about the current trend of increasing deflation. There are several possibilities how to solve this situation. The ECB should start buying government bonds, Germany should let France and Italy slow down the pace of their fiscal strangles by what they would be able to accelerate structural reforms and Germany should invest in domestic real estate and infrastructure. The ECB is willing to start buying government bonds through "quantitative easing", however, Germany is against, and it chose a policy of waiting until the secondary consequences of the deflation, claiming that the purchase of government bonds would not have the desired effect. This is in my opinion the biggest problem of the Eurozone. Member countries, especially those which have a decisive influence in questions about the future of the common currency, and the ECB are not able to agree on substantial questions by what they hurt the Euro and also economies of other members which rely on them.

The rate of the inflation is an indicator that is often compared to the rate of wages. On the basis of this comparison we are able to determine the purchase power of citizens of a country. The index of growth of the gross monthly minimum wage with the basis of year 2005 (2005=100) is nowadays on the level of 165.91% (from 229.04 EUR in 2005 to 380 EUR in 2015) and the index of growth of average monthly wage is 143.71% (from 573.39 EUR in 2005 to 824 EUR in 2013). To compare it with the HICP, the both minimum and also average wage increased quicker than prices but the purchase power parity of Slovakia is still significantly lower than it is in the most of countries of the Eurozone. The purchase power parity (PPP) of Slovakia was on the level of 76% of the average of the EU in 2013, while average of the Eurozone is 105.11% of the average of the EU. As far as the minimum wages in the Eurozone is concerned, the highest minimum wage and also highest purchase power parity is in Luxembourg (minimum wage of 1922.96 EUR/ 264% of the average of the EU28). Although these numbers are huge, Luxembourg pre-crisis PPP was 274% of the average of the European Union. On the other hand, the lowest minimum wage is in Lithuania (300 EUR/74% of the average of the EU) and the lowest PPP is in Latvia (360 EUR/67% of the average of the EU). Another interesting indicator concerning wages is labor productivity per hour. The index of growth of the labor productivity per hour in 2013 in Slovakia, with the basic period of labor productivity per hour in 2005 (2005=100), was 126.7%. The hourly wage had had an increasing trend and in 2013 it was 13.2 EUR per hour. In comparison with other countries of the Eurozone, in Slovakia the hourly wage is as same as the minimum wage lower than in the most of countries. The average of the Eurozone is 37.8 EUR per hour. The highest hourly wage in the Eurozone was in 2013 in Ireland 48.8 EUR (data about the Luxembourg in 2013 are not available but in 2012 there was an hourly wage of 58.2 EUR, however, with a decreasing trend). The highest index of growth of the labor productivity per hour was in Latvia (143.1%) but on the other hand there is still the lowest hourly wage in the Eurozone (8.4 EUR). The lowest index of growth of the labor productivity per hour since 2005, meaning decrease, was in Italy (99.6%). However, a bigger decrease might have been in Luxembourg but there are no data about 2013, in 2012 the index was 92.9% and decrease in 2012 was also recorded in Malta where the index was 94.9%.

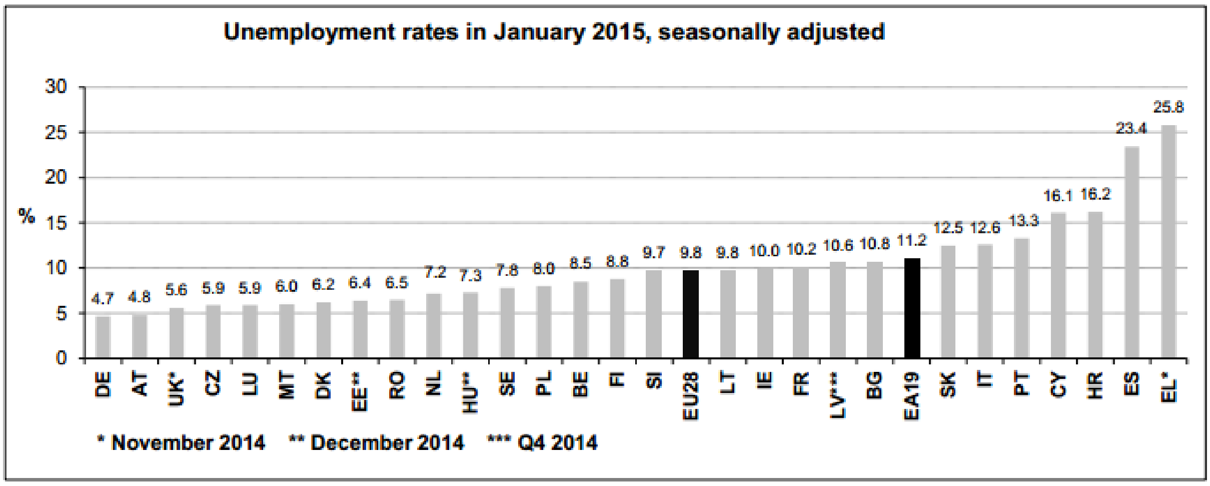
As far as the growth of the GDP is concerned, Slovakia is currently recording relatively good results. At least in the third quarter of 2014 it recorded the sixth biggest growth in the Eurozone (by 2.5%). The average annual growth of the Eurozone was 0.8%. On the contrary of many other countries, Slovakia has not recorded a recession during the crisis (except 2009). The biggest growth was recorded in Luxembourg (by 4%) and the lowest growth, meaning recession was recorded in Cyprus (by 1.7%) Except Cyprus, the recession was recorded also in Italy (by 0.5%), and a zero growth recorded Finland. Slow growth of the GDP which is one of the main reasons of current deflation, is caused by several factors like high unemployment, high indebtedness and low capacity utilization. Prognosis for this year is quite optimistic. There is expected growth in domestic and foreign demand and then there is expected strengthening of the financial sector which together with recent structural reforms should revive the economic growth also in future periods.

Another important economic indicator and it is possible to say that currently the most discussed is concerned final finances, meaning especially the total public debt, which is basically increasing every quarter since the beginning of the crisis in all over the world. The most common ways of reflecting of the total public debt are debt per capita and in % of the GDP. Results of these two methodologies are also different. While the biggest debt per capita in the Eurozone for the third quarter of 2014 is in Ireland (45 367 EUR), the biggest debt in % of the GDP is in Greece (176%). On the other hand, the lowest debt per capita and also in % of the GDP in the Eurozone is in Estonia (1523 EUR/10.5%). Slovakia is also in this indicator better than the most of the Europe. Slovakia currently owes 7646 EUR per capita what is 55.4% of the GDP (although according to the new methodology ESA2010 it is 54.6%). Only three countries of the Eurozone are currently better in this indicator (Lithuania, Latvia, Estonia) and it is far better than an average of the Eurozone (27594 EUR/92.1%) and also the whole European Union (23621 EUR/86.6%). It follows, that currently Slovakia still meets

Maastricht criteria but according to Graph 3, there is a growing trend and it is necessary to accept measures to stop the growth. These measures are available in chapter 3.1, page 24 of this thesis.

However, Slovakia is a country with one of the highest amount of unemployment. Unemployment has always been one of the biggest problems of Slovakia. Although there was some progress since 2000 until 2008, with the beginning of the crisis it has become one of the most significant problems again. Currently, the unemployment in Slovakia is on the level of 12.5%, what is a continuation of a decreasing trend since 2010 when the unemployment reached almost 15%. To compare these numbers with the rest of the Eurozone, Slovakia records the sixth highest level of unemployment (after Italy, Portugal, Cyprus, Spain and Greece) and it is higher by 1.3% than the average of the Eurozone and by 2.7% higher than the average of the EU. The biggest rate of the unemployment is obviously in Greece (25.8%) and the lowest rate of unemployment is in Austria (4.8%). The priority should be the employment of youth. Therefore the European Union created tools to support youth employment. These tools are: Council to create guarantees for young people, quality framework for traineeships and European Association of apprenticeship.

Graph 8



Source*: Eurostat* (online). (2015-03-03). Available from: <http://ec.europa.eu/eurostat/documents/2995521/6664116/3-02032015-AP-EN.pdf/28d48055-3894-492d-a952-005097600ee0>

5. Opinions of experts about the present and the future situation of the Euro

The last chapter of the thesis includes independent opinions of experts. In my opinions it is necessary to come up with the point of view of people who deal with the questions of the Euro and the European Union on almost daily basis.

First of all, here is the point of view from the pre-crisis period which discusses the questions of joining the Eurozone by members which joined the European Union on May 1, 2004. According to Willem H. Buiter, Professor of European Political Economy, European Institute, London School of Economics and Political Science, Universiteit van Amsterdam, CEPR and NBER, and Anne C. Sibert, Professor of Economics, Birkbeck College, University of London and CEPR, these countries (especially those in Central Europe, which are referred as CE8) would do the best if they join the Eurozone as soon as possible. *They are all too small, too open and too vulnerable to speculative attacks against their national currencies to be optimal currency areas.* (Willem H. Buiter, Anne C. Sibert, 2006) They were supporting this opinion on the fact, that each of this country on its own (even the biggest among them, Poland) has relatively negligible share on the world-wide GDP, but together they form strength on the level of big countries like Mexico, or Canada (in 2006) by what they wanted to emphasize the potential economic strength of this area. This potential lay in their size and short distance to trading partners and in removing of many restrictions and prohibitions after they joined the European Union, giving them new possibilities concerning trade development. *An open financial account has many advantages: it permits nations, such as the new member states, with high economic potential to draw on foreign savings to augment their domestic capital stocks. It permits foreign direct investment, which brings financial resources and transfers skills, knowledge and technology. It increases the efficiency of financial intermediation and permits cross-border risk sharing.* (Willem H. Buiter, Anne C. Sibert, 2006) Their prediction if they would not join the Eurozone in a short time was: *If they attempt to peg their exchange rate, then sooner or later they will almost certainly undergo a sudden and costly disruption to their financial sectors* (Willem H. Buiter, Anne C. Sibert, 2006), comparing with the disruption which happened in East Asia, Russia and Latin America at the turn of millenniums. In case of the alternative floating exchange rate regime: *Swings in capital flows brought about by external events can force central banks to have to choose between cutting off growth with high interest rates or allowing precipitous declines in the value of their currency.* (Willem H. Buiter, Anne C. Sibert, 2006)

To compare these predictions with the current situation, five of eight countries of the CE8 have already joined the Eurozone. In fact, all countries, except the Czech Republic, Poland and Hungary, which joined the European Union in 2004, have already joined the Eurozone. It is obvious that in 2006, when these predictions were made, it was not possible to predict the economic crisis, what makes the previous predictions irrelevant. However, Slovakia as the only member of the V4 (Visegrád group) that has introduced the Euro has more stable monetary policy than other members. The most basic example could be the devaluation of the Czech Crown in November 2013 in order to increase the orders from abroad, but there is also a fact, that Czech Republic is a well-known eurosceptic and therefore there are rumors that the devaluation appeared in order to delay the entry to the Eurozone. The euroscepticism might be authorized in some conditions. According to Žarko Lazarević, research adviser at the Institute of Contemporary History in Slovenia, co-editor of the journal Economic Crisis and one of the best experts on this topic in Slovenia, negative effects of the Euro were not obvious in the first few years after its introduction, but nowadays there is no doubt anymore. Lazarević does not deny significant advantages of the Euro but according to him the main issue after the adoption of the Euro in small countries, including Slovakia, Slovenia and also Baltic countries which introduced the Euro only recently, is the question of the national economic competitiveness on the both national and international market. The only tools left for fostering of competitiveness after the introduction of the Euro are fiscal and income policies. These two tools are not enough, the increase of general productivity in economy is simply too slow and there are no EU funds for this case. Another problem according to Lazarević is a price convergence. He explained it on an example of a price of a cup of coffee in a restaurant, which costs the same in Klagenfurt (Austria), Trieste (Italy) and Ljubljana, while the purchasing power in these countries are different. Non-proportional rise of living costs makes pressures for adequate wage rise, which overtakes the increase of general economic productivity and hurts the competitiveness of the national economy.

On the other hand, Juraj Alner, journalist, pedagogue, writer, former Secretary General and current board member of the Pan-European Union in Slovakia, founder and Honorary Secretary General of the Association of European Journalists agrees with the experts that the biggest and appreciable advantages which can the Euro bring are the stability of the monetary policy, reduction of transaction costs and a higher lending credibility. In his opinion, the monetary policy is also related to the political stability. Especially the reduction of transaction costs has a good influence on the psychic of citizens who can identify with the countries which took the way of a more intense integration and with the joining of the Schengen and later the Eurozone there is no dividing on “us” and “west” anymore. In his opinion it is irrelevant when country shall join the Eurozone in case it fulfills Maastricht criteria and it is prepared to give up monetary sovereignty what was not the case of Greece, for which other countries of the Eurozone have to pay the price. However, the biggest mistake that could be done would be the debt relief for Greece what would cause the chain reaction, meaning the winning of populist political parties in Spain, Italy and other indebted countries. This would probably be the end for the common currency and that is the reason why the uncompromising attitude of Germany is necessary. The necessity to maintain the Euro is the effort of all countries of the Eurozone to keep their economies in the boundaries of the Maastricht criteria. The biggest problem for all these countries seems to be the criterion of public finances, when in the most of the countries especially the total public debt increases to intolerable values. In the future, after the stabilization of financial markets especially in Southern Europe, there is a possible way of reconsidering criteria of the introduction of the Euro. However, it is hard to predict some future situation considering also the situation in Ukraine because there is an assumption that the European Union shall participate in the reconstruction of the after-war country.

As far as the point of view of Yanis Varoufakis, the current Greek Minister of Finance, internationally recognized Greek economist and analyst, professor at the American University in Texas and the University of Athens in Greece, former adviser to the former Greek Prime Minister George Papandreou, author of the Euro crisis resolution entitled A Modest Proposal is concerned, the Eurozone cannot afford to lose any of its member. *The Eurozone is so strongly tied that the psychological effect of leaving of one country, especially in the time of deflation, would damage the ability of the Eurozone to survive.* (Varoufakis, 2015) He is also skeptical to the alternative of dividing the Euro to the Northern Euro (controlled by Germany), that would include also Slovakia, and the Southern Euro (controlled by France). *If such a division occurred, it would have had horrible consequences in the whole Europe, because countries of the Northern Euro would have seen a significant strengthening of the currency and the inflow of capital, but at the same time dramatic decline in exports and demand. The rest of the Europe would experience high inflation connected with high unemployment and stagnating demand, and there would be also a big recession in the whole Europe.* (Varoufakis, 2015) Loans, which were granted to Greece, were according to his words poured to the black hole and caused more harm than benefit. He compared this step to the loan of an insolvent person which is unable to pay its debt and takes another huge loan. In his opinion this loan shall never be paid, and this fact is known by those who shall pay it, and also by them who provided the loan. *The real reason why these loans were provided was transferring of potential losses on loans from the books of banks on the shoulders of Greek taxpayers and later when it will be clear that their shoulders are not strong enough to make them pay, on shoulders of German, Slovak, Finnish or even Spanish taxpayers. For this there is only one word – scandal.* (Varoufakis, 2015) As a possible solution he suggests the reduction of costs of small countries of the Eurozone (including Slovakia) who had to pay for this bad solution of the Euro crisis and together come-up with the new, better solution for this situation.

According to Philipp Bagus, German economist, associate professor at Universidad Rey Juan Carlos, an associate scholar of the Mises Institute awarded by O.P. Alford III Prize in Libertarian Scholarship, the main problem of the Eurozone are bad investments. Bagus attributes the responsibility for the current situation to the governments of countries which took losses of banks, which started to have financial issues after the financing of unprofitable projects, on themselves. The public debt started to rocket up while the tax revenue was falling and what is more, governments started to support unemployed people and the industrial field. However, the first mistakes of countries of the Eurozone, especially of peripheral countries (as Bagus called them), started to appear before the start of the crisis. The first of two of the biggest mistakes is the low interest rate causing deficit financing and the second is, as Bagus said, "The tragedy of the commons". Bagus explains it in his book "The tragedy of the Euro": *In the Eurozone more independent governments can use a common central banking system to finance its deficits and due to the costs of these deficits they can be partly outsourced transferring higher prices on foreigners.* (Bagus, 2010) He explains this phenomenon on the example of the Greece government which would spend more money than it would collect on taxes, and to cover the difference it would issue bonds, sell them to banks which would use it as collateral at the ECB. These banks would get more money from the ECB which they mostly use on credit expansion what causes price growth in the whole Eurozone because it is necessary to pay the deficit. The deficit financing could be called as an unwritten rule of aid to irresponsible countries of the Eurozone, from responsible countries of the Eurozone. Responsible and powerful members of the Eurozone would help indebted countries because it is also in their interest to preserve the Euro currency. In fact, this mechanism worked even before the start of the crisis but these responsible countries, especially Germany, which was the main source of this money, are not willing to pay anymore. Unfortunately, nowadays there is no effective tool that would force members of the Eurozone control their situation concerning public finances. There was introduced the Stability and Growth pact that was supposed to force countries to keep the deficit under 3% of the GDP, but the countries did not adhere it and there have never been drawn consequences. Today’s situation is that debts of many countries are unrefundable or these countries are not willing to accept measures to do something with it. If they increased taxes, their economies would collapse and the deficit would increase even more, and if they reduced costs, they would face turmoil of the citizens. In both cases there would be an opportunity to populist political parties what in the end would led to the failure of the Euro. According to Bagus the question of paying debts shall decide about the future of the Euro.

There are several possible scenarios:

1. ***Peripheral countries:*** *Governments of peripheral countries shall pay for their irresponsible behavior. They shall decrease costs and privatize state assets. They shall lose votes and influence.*
2. ***Heart countries:*** *Governments in the heart of the Eurozone (Germany, Finland, The Netherlands, Austria, maybe France) shall pay and privatize too.*
3. ***Increased tax burden:*** *Tax payers of periphery shall pay by increased tax burden.*
4. ***Fiscal Union:*** *Tax payers in the heart shall pay. It could be done by fiscal union. In such a transfer union stronger and healthier countries constantly shift resources to poorer countries. Alternative transfers could be done through Eurobonds – in this version peripheral countries issue Eurobonds guaranteed by all countries. Tax payers of richer countries shall pay indirectly through higher interest rates on their own debt. This move can be done through the ESM but the difference is that heart countries maintain control over the issuing of bonds and for different countries there are still different levels of interest rate.*
5. ***Monetization:*** *Residents of the Eurozone shall pay by the increased inflation. The ECB shall monetize debts of governments, while there are different ways to do it. It can buy more bonds of peripheral countries, it can still accept them as collateral, or it can help financing the ESM or Eurobonds indirectly, by monetizing debts of heart countries.*
6. ***Financial system:*** *The financial system shall pay for it. Too indebted countries shall go bankrupt. As the excessive consumption of governments was financed by the*

> *financial system, which is closely related, the result shall be the bank crisis.* (Bagus, The future of the Euro, 2013)

According to Bagus there is a big problem that the ECB, France, Germany and peripheral countries are not able to agree on the scenario. France and peripheral countries would prefer the combination of the Monetization and the Financial system while the ECB agrees only with the Financial system. On the other hand, Germany does not agree with these two possibilities and it proposes the combination of the Peripheral countries, the Increased tax burden and the Financial system what would be a reformed Pact of Stability with fees, bigger control of spending money and participation of the financial system on losses. According to Bagus there are two possible results. *If France and periphery enforce their way, we are going to have a fiscal union and more centralization. Euro would be political and weak currency. There would be a double-digit inflation and it is very possible that Germany would leave the Eurozone together with some other countries what would cause a bank crisis. If Germany was victorious, the Euro would in the long run become a strong currency. Another cuts and reduction of living standard might lead to the turmoil in Greece that would possibly leave the Eurozone in purpose of making its own monetary policy. This behavior might cause the chain reaction and other countries would leave the Eurozone what would lead to the bank crisis.* (Bagus, The future of the Euro, 2013) The question is which side has a bigger chance to win. Germany pays bills and guarantees for periphery countries what can be stopped any time but on the other hand according to Bagus this trend will be probably maintained due to bigger geopolitical force of France as a winning country of the Second World War. *Germany pays the other countries since the end of the war partly because of guilt, and partly due to the threat of isolation. These conditions have not changed and it is likely that it will be Germany who will pay and the Euro shall be a weak currency.* (Bagus, The future of the Euro, 2013)

6. SWOT

• Stability of the monetary policy • Strong, international currency • Reduction of transaction costs • Higher lending credibility • Bigger price transparency • Growth of the foreign trade • Inward of the foreign direct investment • Acceleration of economic growth • Increase in living standards	• One-time costs of introducing the Euro • Loss of independent monetary policy • Participation on rescue funds for irresponsible countries • Convergence of prices • Different PPP • Lack of tools to foster competitiveness
• One currency in the whole Europe • Mutual support in matters of the economy	• Crisis • Recession • Populist policy • Unemployment • Low demand • Debt • Decline in living standards • Bank failures • Threat of war

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.

As far as strengths of the Euro are concerned, Slovakia has more stable monetary policy than other countries of the V4. People in Slovakia use currency that could be used world-wide, or at least there is no problem with the exchange, as it would be in case of the Slovak Crown. People can easily compare prices with other countries of the Eurozone and exert pressure on businessman to enlarge quality of their products and services. The other fundamental strengths are reduction of transaction costs and higher lending credibility which attracts investors (although the crisis made these strengths less significant). In case Slovakia did not introduce the Euro before the full onset of the crisis, there is a big chance that Slovakia would not be as strong in terms of increase of the minimum and average wage and the growth of the GDP. On the other hand, there would possibly be a higher level of the unemployment and the inflation.

It is obvious that the introduction of the Euro has brought also many weaknesses. The most visible was the necessity to give up the previous currency by what Slovakia lost an opportunity of using monetary tools to influence the economy. It was originally the only significant disadvantage of the Euro but the crisis has brought an obligation to participate in rescue projects (EFSF, ESM) for countries which irresponsibly used their financial resources. Especially the ESM is in my opinion fund which should have never been accepted in the way it currently is, because it does not give an opportunity to small countries to influence events in the Eurozone and it is also legally unassailable what means that there would be no consequences for action of people who manage it. Another weakness is the convergence of prices of products in countries of the Eurozone, while there is still a big gap in PPP of certain countries and the weakness concerning competitiveness. The only tools left for fostering of competitiveness after the introduction of the Euro are fiscal and income policies which is not enough.

Nowadays it is very hard to talk about the opportunities of the Euro. In my opinion the Eurozone would be in a better state if all countries of the European Union would be also members of the Eurozone. There would be better redistribution of debt repayment and as there would be more countries, the decision making concerning questions of the future of the Euro, would not be almost a full prerogative of Germany and France as it is nowadays. In the current Eurozone it is important to keep Maastricht criteria, which unfortunately many members do not meet, especially criteria concerning public finances.

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.

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List of tables

List of graphs

List of abbreviations

EFSF	European Financial Stability Facility
EMS	European Stability Mechanism
GDP	Gross Domestic Product
ECB	European Central Bank
ECU	European Currency Unit
EMCF	European Monetary Cooperation Fund
EUA	European Unit of Accounting
EMS	European Monetary System
ERM	Exchange Rate Mechanism
ESCB	European System of Central Banks
EMS II	European Monetary System II
ERM II	Exchange Rate Mechanism II
NBS	National Bank of Slovakia
SKK	Slovak Crown
EUR	Euro
HICP	Harmonized Index of Consumer Prices
EU	European Union
ECOFIN	European Council for Economic and Financial Affairs
ATM	Automated Teller Machine
ESA	European System of National and Regional Accounts
IMF	International Monetary Fund
CEPR	Center for Economic and Policy Research
NBER	National Bureau of Economic Research
CE8	Central European 8
V4	Visegrád 4
PPP	Purchase Power Parity
FDI	Foreign Direct Investment

List of Annexes

Annex 1: The “face” of the Euro campaign in Slovakia, “Euráčik“

Source: ***Youtube*** **(online). (2015-02-15). Available from: <https://www.youtube.com/watch?v=_usKr2Ic9u8>**

Annex 2: This sticker was visible on all business entities which committed to adhere to the Code of Ethics

Source: ***Bandzone*** **(online). (2015-02-15). Available from: <http://bandzone.cz/konverznykurz?at=gallery&ii=87406>**

Annex 3: Slovak Eurocalculator which was delivered to every Slovak household during the information campaign

Source: ***Wikipedia*** **(online). (2015-02-15). Available from: <http://sk.wikipedia.org/wiki/Eurokalkula%C4%8Dka>**

Annex 4: The winning proposal of Slovak euro coins

Source: ***National Bank of Slovakia*** **(online). (2015-02-15). Available from: <http://www.nbs.sk/sk/o-narodnej-banke/zoznam-fotogalerii/fotogaleria/_slovenske-strany-eurovych-minci>**