EURO: ADVANTAGEOUS FOR SLOVAKIA?

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Abstract
After the implementation of the euro exchange differential, transactional and different administrative costs have been removed, which signals the expectation of even better connections between Slovakia and eurozone markets. The eurozone countries are our most important business partners. From an investor's point of view, Slovakia currently lacks a higher quality infrastructure and better atmosphere in business environment. Significant development potential is visible in services. With regard to the high number of auto and electrotechnical industries, much is spoken about a higher level of diversification in the industry. It is necessary to view euro stability in the long term as an advantage to attract investors.

Keywords
Euro, Investments, Economic Growth, Economic Depreciation, Unemployment

I. Introduction

The EU crisis has highlighted difference in attitudes between the east and south. We could come to the following conclusion: we will be stricter with what concerns the east, while we were once more benevolent towards the south. In Paris, the idea prevails that France could weather the crisis thanks to the important role of the state in economics, while countries in the east were influenced the most and sank under the siren call of economic liberalism. The states of Central Europe can bear the crisis better than western countries. The most important country in the region, Poland, is the only one in the EU which is not in recession (growth of 1.5 per cent in the year 2009). The crisis falls on a region which is not responsible for it.

Despite that, there is a group of countries, mainly Hungary and Latvia, which, after the weakening of currencies, cannot repay Austrian and Scandinavian euro loans. These countries sought help from the International Monetary Fund and have accepted drastic economic measures to an extent which is improbable in the west and especially so in the south.

While there were speeches about misfortune in the east, the problem was in the south. This did not refer only to liberalism, but also to the debts of states. It seems shocking that financial rings saved by massive state intervention now attack states considered to be vulnerable.

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It is logical that the eurozone takes care of members who face problems more than caring for potential candidates. It is not very wise to decrease deficits in time of recession. However, due to different perceptions and the crisis of the euro, one issue seems evident: the criteria for future candidates for the implementation of the euro will be stricter, insofar as it was less so with respect to the countries in the south. And the expansion of the eurozone towards the east will rely on the precious recovery of debts in the south.[2]
The new strategy of the European Union, Europe 2020, is awaiting, according to Slovak Prime Minister Robert Fico, the same fate as its previous Lisbon strategy, which was, after the negotiations of the European Council, labeled as a huge failure.
The conclusions of the two-day summit of the European Union on this agenda should contain five points. Mainly, these concern employment, expenses for science and research, and certain goals in the area of emission limits, the question of education and, finally, there was much discussion on the criteria of poverty. New member states stressed cohesion, which enables development towards the future. They emphasized energy safety and the treaty on growth and stability. All three conditions were implemented into documents.
As an example of unfulfilled expectations, the Slovak prime minister mentioned investment in science and research, which should reach 3% of GDP. However, we know that in Slovakia in the year 2015, we will see a level of around 1.8 or 1.9% ofGDP.
On the other hand, the prime minister welcomes the fact that the goals stated in the document shall apply to the whole EU and that each member state will have the right to define its own national programmes, which can be different from the goals of the EU. He emphasized the paradox of the document, which on the one hand has ambitious goals, but in the first paragraph states that "in the last two years we have been facing the worst economic crisis since the thirties of the last century". The text speaks about slow structural growth, high unemployment and over-debting at 80%. In Slovakia, it is at 39%.[3]

II. Greek debt

Greek debt has reached over 300 billion euro. In comparison, Slovak debt is 27.5 billion euro. The number of Greek citizens is twice that of Slovaks. Per capita, the Greeks are six times more in debt than Slovaks. On paper, their standard of livng is better than ours, thanks to high debts. This will have to be paid back with interest, which means they will have to work hard. Will they be able to do this? They produce less per year than their debt. 40% of GDP is created by state expenses, which means no production. Greece was, from a certain point of view, a relatively prosperous country. They became part of the EU, adopted the euro and were considered to be astandard European country. They will now be on the level of the developing world. They reached this point thanks to those who helped them and sent them euro funds. When the situation is bad, it is not only the Greeks who have problems. The Greeks do not have the money to pay for loans and yet they request more money (for non-recourse loans). They cannot practically offer the required value:

[2] Rupnik (2010).
[3] TASR (2010a).

they do not have a developed industry and sea transport and tourism is going down. The crisis disclosed a gigantic problem that is spread throughout the other countries using the euro. And the euro can function only when the rules are adhered strictly to, debts are kept at bay and economics produce real value. Greece is not the only country that has problems such as these.

III. Next overflow of economics

On the other hand, Western Europe does not have liberal rules and economics cannot cleanse itself. What has happened? The financial crisis means that banks and firms are having problems. Consequently, states have, to a great extent, cover up their problems (scrapping, saving the banks, help for chosen firms). However, some states were not properly in debt before, so with these measures the debts have increased. After Greece, other states will have problems - first those in the south and then in the north. Money from different savings parcels will be slowly used by firms and they will have to search for radical rationalization measures. The first companies which will fire employees will be car producers, with the first among these likely to be Fiat and Opel. Knowing the facts, one does not have to be a magician to know where all this will end up. The better question is "when?". We can assume that the next overflow will come at the end of this summer.[4]

IV. Euro in Slovakia

Implementation of the euro in Slovakia meant that we removed the exchange rate, transactional and other administrative costs, thanks to which one can expect better connections between Slovakia and the other markets in eurozone. The countries of the eurozone are Slovakia's most important business partners. Slovakia, from the point of view of investors, lacks a high-quality infrastructure and a good atmosphere for entrepreneurs. Great potential can be seen in the area of services. With regard to the high number of auto and electrotechnical industries, much is spoken about a higher degree of diversification in industry. The motor of high increase of the Slovak economy in the time before the global economy crisis were the auto and electrotechnical industries. In addition to these branches of industry, one should not forget smaller investment projects.

Investment in general contributes to a decrease in unemployment, growth in the standard of living and increased household consumption. It attracts and opens up space for new investors, mainly in the area of services. Consequently, big foreign investors create space for the arrival and for the development of smaller entrepreneurs aimed at services, even in the domestic arena.

Holland, Austria and Germany are among those countries which have invested the most. Their contribution represents more than half of allto direct foreign investment since the rise of the Slovak republic. Other important investors in Slovakia, are , from the long-term point of view, investors from the Czech Republic, Italy, Hungary or Cyprus. The

[4]Rajtár (2010).

majority, more than 85%, of total direct foreign investment has been allocated in Slovakia to enterprises, and the rest in the banking sector. The most significant financial amounts have been invested in industrial production, mainly the production of cars and electronics, the energy industry and financial services. Interesting investments have been carried out in the area of trade, transport or communication. From a regional point of view, two thirds of foreign investments have been in the Bratislava region and, on the contrary, just one per cent in the Prešov region.[5]

The economy in Slovakia has never had such a sharp fall as last year, when tens of thousands of people lost their jobs. This is the worst part of the news from the Statistics Office. A more detailed view of its numbers was gained from the last few months of the year. It showed that, thanks to industry, the economy has slowly started to recover. Growth of unemployment has also been slower. In the last quarter, we had the second-highest economic growth in the Union, which completely changes the perspective on the fall of the economy.

When we compare this situation with the Czech Republic, throughout the whole year, we had worse numbers. The Czech economy fell by about 4.3 per cent and the Slovak economy by about 4.9 per cent. At the beginning of last year, our economy experienced a sharp fall, one of the deepest in the union. The end of the year, however, was better. What can be seen behind last year's fall is that it is thanks to the crisis that foreign countries bought fewer goods than two years ago. The EU fell byabout 4.1 per cent.

This year we should grow. The Ministry of Finance estimates by about 2.8 per cent, which is twice that expected in the Czech Republic. The construction of new roads should help significantly. The fall of the economy was accompanied by a freezing of salaries and much firing. More than 100,000 people lost their jobs and their income radically decreased. Employment decreased by more than 4 per cent, i.e. more than in all previous history. There are currently about 350,000 people without work. This year the economy should grow, but real salaries will, according to the Ministry of Finance, fall. There will be more unemployed people. The more we have, the more certainty is lost. Industry currently produces about 7 per cent less than before the crisis andemploys about 21 per cent less. From this, it can be inferred that employees are more employed and firms react to revitalise production with a delay. Improvement will not come so soon. Unemployment will fall very slowly. It will take several years to get back to the position we had in the year 2008, when the crisis had just started.[6]

Year 2009 could be called the year of the crisis. After the hypothecary bubble burst in America, it spread to the old continent as well. It mostly affected the labour market. People started losing their jobs. Profits of companies, according to statistics, fell by about 30 per cent. The number of unemployed was more than 324,000. Anger, poverty and bitterness soared. These are the consequences of the crisis for many people, not only the disadvantaged or lazy. Moreover, it is uncertain whether this year will not later be called the year of crisis. It is clear that the crisis revealed a basic truth and was born from over-production. Factories, with their unrealistic expectations, created such vast capacities that

[5] TASR (2010b).

[6] Jančík (2010).

they were made redundant. Simply said, they wanted to produce so much and of such products that, in normal conditions, no one would want. The world is full of companies which are not needed.

Is then capitalism the system which can bring prosperity? If the world economy wants to be prosperous, then countries should aim at what they can manage easily and remove with the cooperation of other insufficiencies. Politicians should take steps which will have longer and better results. The Slovak government should concentrate on innovation and the development of science and education. Educated people should not get forgotten. Because only they can understand the fact that, while capitalism is not easy, all other systems have failed. Only an educated man can find something better than capitalism. Something less utopian?[7]

The financial wealth of Slovak households, despite the economic crisis, is going up. Households in the last year started to consume less and to accumulate savings, which were higher in comparison with the year 2008. This comes from the analysis of UniCredit Bank, according to which the income of households last year went down but households restricted their consumption. One of the motives of such behaviour is the reality that Slovaks do not like loans and debts. Households in Slovakia are nowadays more careful in spending and therefore they accumulate savings in spite of the growing unemployment. The reality that the Slovaks do not like debts and long-term unemployment resulted in the fact that the financial wealth of households in the last year reached 59% of the gross domestic product (GDP), what is the least in comparison with other states of the V4. Analysts, however, warn that in this evaluation we need to take into consideration the non-financial wealth represented by real property. Slovaks have more wealth in non-financial property. Citizens of Slovakia possess, according to the data from the year 2001, more than 16% more flats than in Western Europe and about 40% more than in the Czech Republic. The rate of residential ownership reached 66% in 2001, while the average in Western Europe was 57%. The gradual growth of the standard of living in Slovakia should also, according to Ján Tóth, see an increase in financial wealth. We do not expect dramatic changes in the behaviour of households.

However, analysts warn that the Slovaks have, in comparison with other countries, fewer savings, but on the other hand, they have fewer debts. Liabilities of households in Slovakia last year reached on average only 22% of GDP, while the Western European average is 59% GDP. Slovaks still use few financial products and they keep too large a portion of their financial wealth in cash and bank deposits. We do not have too many share funds. Slovaks, according to the analysis, use more expensive consumer credits and fewer loans.[8]

V. Conclusion

In spite of the temporary competitive advantage for neighbouring countries upon the weakening of their currencies last year, it is necessary to perceive the euro from the long-term perspective as an advantage when getting investors. The high level of currency fluctuation

[7] Ročkár (2010).
[8] SITA (2010).

in neighbouring countries can represent unsteadiness and be a negative consideration for investors when contemplating entrance to a given country. Investors can secure themselves against currency fluctuations, but this in turn means higher costs.

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