

How adults cope with the conversion to the Euro in the Slovak Republic

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While the début of the Euro and the founding of the Eurozone at the beginning of 1999 was a very important point in the history of the international monetary system, Slovakia was not directly affected. At that time the country only kept hoping to enter the European Union, never imagining that a membership in the Eurozone could possibly take place almost directly afterwards. As a fully legitimate member of the Union since 2004, we have already become the 16th member of the Eurozone from the 1st of January 2009 onwards. Are Slovak citizens in a positive frame of mind or feeling rather uncertain? How are they getting used to dealing with a new currency? This paper describes the basis, methodology and findings of a survey that was conducted at three different points in time. The first part of the research was conducted before a decision about our entrance was made, the second part in December 2008 and the last part in April 2009. One section covers numeracy difficulties people are experiencing. The project summarizes relevant data and the results are clearly demonstrated with the help of tables and graphs.

June 2008 represents an important milestone in the lives of the Slovak population. The Slovak Republic was approved by the European commission to become the 16th member of the Euro Zone after fulfilling the Maastricht criteria. While it gave the country a stronger status, people had mixed feelings. While some were worried about high prices and the loss of an independent monetary policy, there was also an excitement about further development and a higher standard of living.

It was expected that a new currency would have some implications. From a technical point of view the whole process was not complicated, yet a new currency led to a cultural change. Even though a lot of people had already experienced the Euro currency while travelling, for many others it was an utter novelty. However both groups started to go through a long process of adjustment to “thinking” in a new currency and in the end behaving in a way that does not refer back to the old currency. Needless to say, based on the experience of other Euro Zone countries (Marques and Dehaene 2004; Missier et al. 2007; Ranyard 2007), this will take a long time.

The National Bank of Slovakia together with the government started a huge information campaign in order to ease and speed up the conversion. The National Council of the Slovak Republic approved General Code # 659/2007, which amends certain measures and practices related to the preparation for and implementation of a new currency. The primary aim of the Code was to guarantee an organized and

smooth progression towards the Euro, to ensure protection of the economic interests of citizens, to assure continuity in all legal relations, to prevent an increase in inflation and to safeguard a preparation and an adaptation to a correct evaluation of real income, prices and living expenses by way of dual pricing.

According to a study done by the National Bank of Slovakia, the introduction of the Euro should lead to an increase in the real income of households of, on average, 4.6% in 10 years and 9.8% in 20 years, with the biggest impact expected for the working population. The retired should benefit as well, but not as much, expected benefits were up to 50% compared to the working population, while the unemployed might not experience any benefits.

At the same time more the National Euro Changeover Plan for the Slovak Republic was prepared in more detail, with an update in April 2008, and the final update at the end of September 2008. The 27th of September 2008 was named the day of the Euro.

The Euro started to circulate on 1st of January 2009 in what was called the Big Bang scenario. Dual circulation of the former Slovak crown and the new Euro lasted only 16 days with all prices being converted according to the official conversion exchange rate (1 EUR = 30.1260 Slovak crowns) set by the Council of the European Union. The main stated aim was not to damage people.

The Euro has been around for almost 10 months now and has definitely had an impact on the whole country. This paper confirms that the attitudes and feelings of people have changed since the first round of the survey was conducted, that the Euro illusion could be observed (Burgoyne et al. 1999; Gamble et al 2002, Gamble 2007) and that people are using different currency adaptation strategies (Hofmann et al. 2007, Gärling and Thøgersen 2007).

Theoretical platform

This paper and a preceding study focus on three basic areas – people's attitudes towards a new currency and their feelings, Euro price evaluation, the observed Euro illusion and four currency adaptation strategies that are used by people. First these are theoretically described and later results are presented.

Expert's opinions on the single currency are diverse. Some claim there are factors discouraging a country from joining in, such as the country wanting to use the instruments of monetary and exchange rate policy to influence and regulate employment, status of trade and balance of payments or an interest in an inflation rate that is different from the rate of inflation in a monetary union. In addition a country might prefer to use monetary expansion and refinancing of government spending (which would prevent the required discipline in terms of fixed exchange rates) or might not be willing to give up seignorage. Another reason might be the existence of a domestic political and economic elite able to keep a system of fixed exchange rates in balance or a state's inability to accept the degree of integration set out by the agreement on optimum currency areas, in areas such as common standards, immigration, tax legislation or labour law.

In contrast, those who promote the Euro raise points such as the massive reduction of transaction costs in international trade, the elimination of exchange rate movements, close cooperation in and coordination of an increased participation in the money and

capital markets and, ultimately, currency manipulation, which strengthens the currency's international status and makes it a worthy adversary of the U.S. Dollar. From the above it is clear that the views on joining vary. There are professionals who understand this step as an inevitable condition for a further integration process in Europe. Conversely, there are Euroskeptics who reject the whole project of European political and economic integration and have a resistance to join or stay in the EU. (Lipková 2006)

Every currency changeover brings certain complications. Getting used to new coins and notes definitely takes some time, even though it is not such a complicated task. However, the more worrying task for people is to learn the value of the new money. Shoppers who are dealing with more than one currency are frequently exposed to the 'money illusion'. It is linked to the nominal value of the currency and causes a different perception of the real value of money. To give an example, it is psychologically easier for a Slovak to leave 1 Euro in tips than to leave 30 Slovak crowns. Consumers are willing to pay more for a given product when it is priced in a currency with lower numerical values than in a one that has higher numerical values. This phenomenon is called the Euro illusion (Burgoyne et al. 1999, Gamble et al. 2002). The Euro illusion thus suggests that due to the change of currency, prices and salaries will appear lower in Euro compared to the old currency. While consumers might feel poorer because they “earn less”, the paradox is that prices look lower than before as well.

There are several strategies that have been observed over time. Hofmann et al. (2007) came up with the anchor, conversion, intuitive and market strategies that are described in Table 1. The authors noted a different level of accuracy as well as a different level of effort. According to their research people generally used more than one strategy, but the market value strategy dominated.

Table 1. Strategies by Hofmann et al (2007)

The type of strategy	Characterization
The anchor strategy	Prices of frequently bought products are learnt and then used to evaluate prices of other products.
The conversion strategy	Every price is converted to the old currency by means of either exact calculation or an approximate conversion rule.
The intuitive strategy	Comparison with the old currency is not made a people intuitively buy what they need
The market value strategy	The associations are made between some values in the new and old currencies.

In addition it has been spotted that the conversion strategy has been mostly used for typical purchases by those who were older, less educated and with a negative attitude towards the Euro.

The methodology and main aim

The data for the paper were collected at 3 different times, between May 2008 and April 2009. The first round of anonymous questionnaires took place right before the decision about the Slovakian entrance into the Eurozone was made; the second almost immediately before the dual circulation and the third one was four months after the currency changeover.

The representation of respondents copied the structure of the Slovakian population with regards to the age, earning power and sex. All details are summarized in Table 2.

Table 2 Details of the questionnaire

Focus/ Date	2.5.2008	5.12.2008	30.4.2009
Number of respondents	N = 133, 5 excluded N= 128	N = 128, 4 excluded N=124	N=124
Structure based on sex	Men = 48% Women = 52%	Men = 48% Women = 52%	Men = 48% Women = 52%
Method	Anonymous questionnaire	Anonymous questionnaire	Anonymous questionnaire
Data evaluation	Microsoft Excel	Microsoft Excel	Microsoft Excel

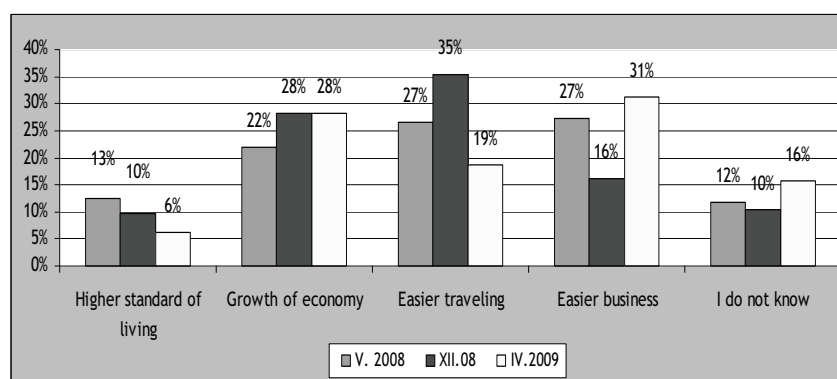
Participants were asked to answer 27 questions. The first five were socio-demographic questions – their age, sex, earnings and the size of the town they live in. The following eight questions were monitoring their general knowledge about the European Union and opinions on what would change once the new currency was introduced. The rest were directed at their feelings and attitudes, both positive and negative, at tipping in both currencies and people’s experience of the currency and the conversion. The instructions at the beginning contained the general description of the study and a specific example of how to fill in the questionnaire. All questions apart from one were multiple-choice questions and one was open – participants were asked to name the Maastricht criteria.

This research was conducted as a part of a dissertation and another round of the survey is already planned for December 2009 in order to evaluate one year of the Euro circulation. The current literature about the transition to the Euro in Slovakia mostly consists of the newspapers and magazines articles and sufficient research is lacking. The Slovak Republic is the first country of the Visegrad 4 (the Czech Republic, Poland, Hungary and the Slovak Republic) that has been using the Euro as a means of payment and is the youngest one as well. As the country is very close economically and geographically especially to the Czech Republic, the results and findings might be interesting for citizens of this neighbouring country.

Results

Attitudes and feelings are reflected in people’s perceptions of the advantages and disadvantages of a new currency. As Figure 1 shows, Slovak’s opinions on four given options - higher standard of living, growth of economy, travelling and business - have changed over the observed period. While over a year ago they emphasized higher standard of living, in April 2009 almost one third of respondents saw a positive effect of the Euro on growth of economy and easier business.

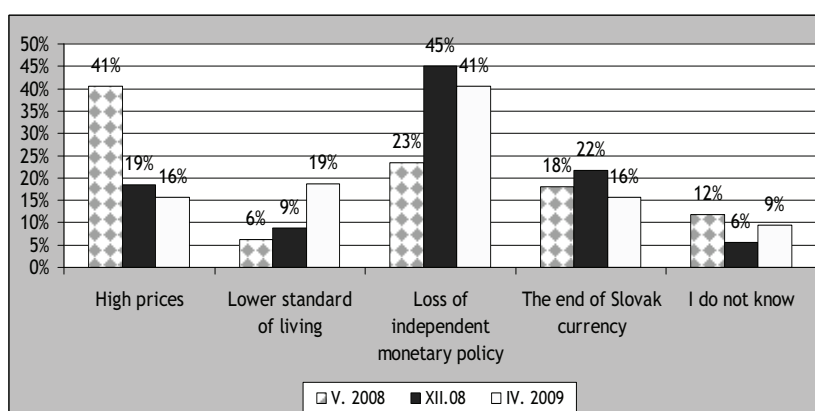
Fig. 1 The pluses of a new currency



Roman numerals stand for months in the key eg IV stands for April.

On the other hand, participants were asked about the disadvantages and could chose from four specific examples – high prices, lower standard of living, the loss of an independent monetary policy and the end of the Slovak currency. While they were afraid of higher prices in the first round, as the date of the currency changeover came closer they started to worry about the loss of an independent monetary policy. What is interesting, but not surprising, is that only 22% felt any “sadness” about the end of Slovak currency immediately before the changeover, which can be explained by the fact that it had not been around for such a long time in the first place. Moreover, while high prices were not worrying, the respondents were concerned about a lower standard of living.

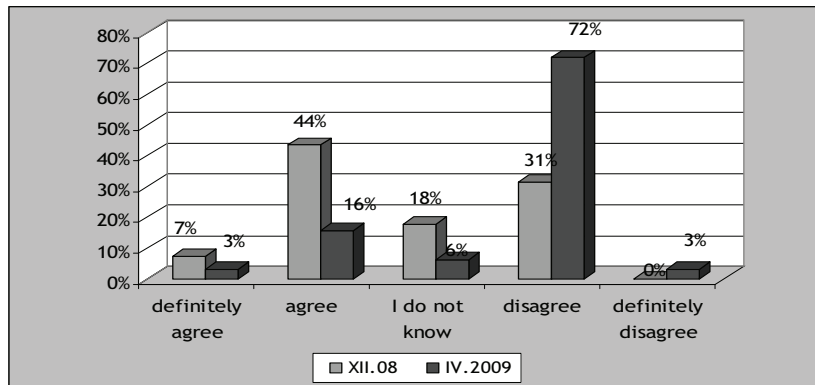
Fig. 2 The minuses of a new currency



Roman numerals stand for months in the key eg IV stands for April

Further questions were included in two rounds only, as respondents could not have answered them before Slovakia was approved to go ahead and enter the Eurozone. One of the questions was asked in order to see how participants evaluated the conversion process. The results in Figure 3 clearly show that while in December 2009 51% of participants expected difficulties with the whole process, four months later 75% disagreed with the statement.

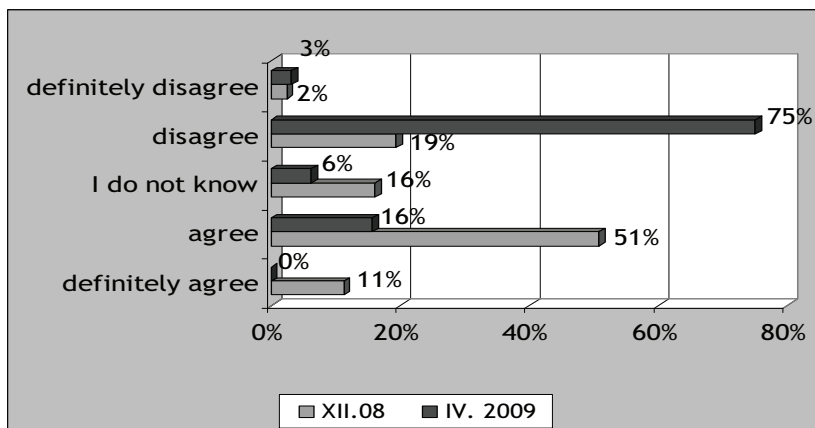
Fig. 3 The currency changeover causes loads of difficulties



Roman numerals stand for months in the key eg IV stands for April

In another query respondents were asked to comment on the sentence “I am worried that shopkeepers would cheat”. Again, while 62% agreed in December 2008, 75% disagreed with this statement four months later.

Fig. 4 I am worried that shopkeepers would cheat



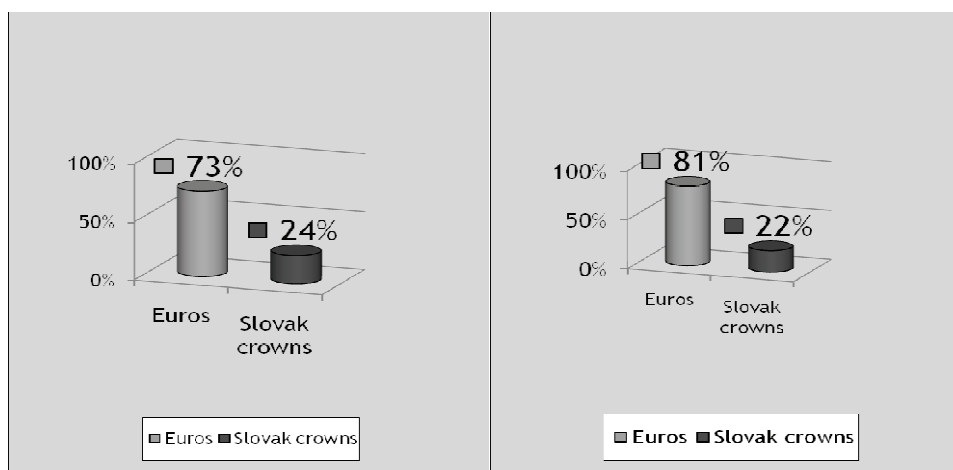
Roman numerals stand for months in the key eg IV stands for April

The last task in this part was to comment on a sentence “The Euro makes me feel more European”. 52% of respondents agreed or definitely agreed in December 2008, but the percentage had risen by a further 17% only four months later. This might have been caused by the fact that the history of the Slovak Republic had been a short one in the first place (established on the 1st of January 1993.)

The Euro illusion was described earlier and has been observed in Slovakia as well, even though in this survey the issue was only addressed in four questions. They were placed in different parts of the questionnaire as the close order could have distorted

results. The participants had to comment on an appropriate tip. The values were chosen in both currencies and were comparable taking into account the conversion exchange rate. The results are in Figure 5. In December 2008 over 73% of respondents gave tips in Euros compared to 24% tipping in Slovak crowns. In April 2009 almost 81% gave tips in Euros and 22% in Slovak crowns. At that time, the question was asked in the past tense. Surprising was the fact that all those who gave tips in both currencies gave higher tips in Euros. This confirms the theory on the perception of a currency with a lower nominal value – the value is generally underestimated.

Fig. 5 What is an appropriate tip? Comparing December 2008 and April 2009



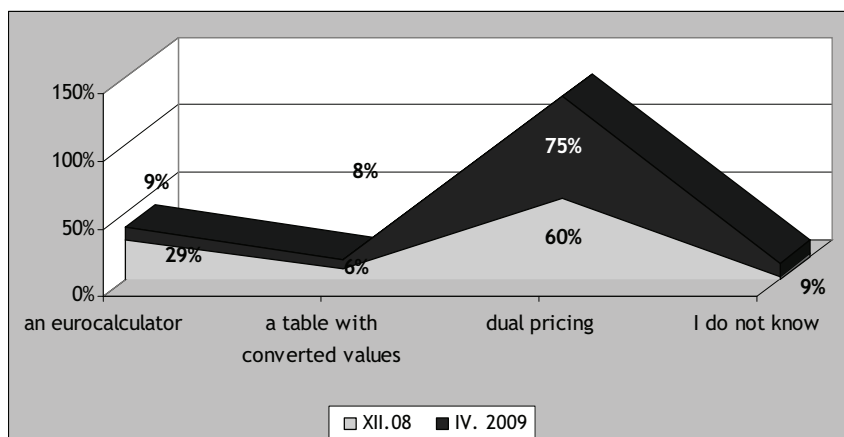
The last part discussed is linked to currency adaptation strategies. Out of four discussed by Hofmann, the conversion strategy prevailed at the time of the last round of surveys. The participants used a rough conversion rate of 30 Slovak crowns for one Euro. Further factor that might have been beneficial is that respondents were used to dealing with another currency already (76% used another currency while travelling) and out of that 74% computed the sum needed for travel themselves without waiting to find out until going to a bank. They have experience with converting values.

The respondents hadn't managed to learn the prices yet, so did not use any anchor. This might be caused by the fact that shops and other institutions used dual pricing. People therefore relied on fairness in denomination and did not pay that much attention to whether the new Euro price was correct or not. They could check this themselves on the spot.

The market value strategy and the intuitive strategy have not been observed yet. The main factor causing this trend might be dual prices because people could still see prices in both currencies and were not encouraged to use some set values to convert between the new and the old currency.

In order to ease the whole process of currency changeover the government allocated 110 million Slovak crowns and National bank of Slovakia 70 million. Each household received printed information material together with a Euro calculator and a table with converted values, a dedicated website was set up as well as a toll-free telephone line for questions about the Euro. Figure 6 shows the preferred methods used while converting from one currency into the other.

Fig. 6 Which method are you using in order to estimate the value of goods?



Roman numerals stand for months in the key eg IV stands for April

Discussion and conclusion

Generally, it can be claimed that the transition to the Euro in the Slovak Republic went smoothly and the new money unit was well received by people. More than 75% of respondents did not feel any difficulties within the observed period, 78% were not worried about shopkeepers cheating and more than 69% of participants felt more European as a result of the new currency. Only 16% felt nostalgic leaving the old currency behind.

It seems that people are very enthusiastic about the new currency, even though the whole process is not completed yet. They think it is necessary for further economic growth and easier business (over 59%) especially during the financial crisis. Slovakia is the only country that introduced a new currency during this difficult time and it is seen as a good move. The financial crisis has changed the situation in many countries in the space of a few months and the newly visible costs of not using the Euro have caused politicians in countries with independent currencies to rethink their positions (i.e. Poland, Denmark, and Iceland).

The Euro illusion was observed in the last two rounds of interviews, but in order to make a definite claim further and a more detailed research is needed. In general, people have a tendency to overspend - as confirmed for tipping - as nominal values of goods and services are lower than before, even though they feel poorer than previously. This is a typical phenomenon related to the money illusion.

Slovaks prefer to use the market value strategy and four month after new currency has been circulating they converted prices using the official exchange rate. Further research is needed to see when they start learning new prices. It is expected that once the dual pricing system is no longer obligatory, they will be forced to use other strategies because of their inability to remember old prices in an old currency forever. The obligation to publish both prices ends in December 2009.

The presence of the Euro illusion is a sign of an incomplete adaptation process. This calls for an additional appropriate information campaign and effective government policies to facilitate the process. These issues will be addressed in the next part of my dissertation research.

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