
Supporting Small and Medium-sized Enterprises in Preparing for the Euro Adoption in the Czech Republic

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Abstract:

The euro adoption process in the Czech Republic is currently viewed negatively among SMEs. Preparation the transition to the euro will eliminate the risk of destabilization in business sector and in financial markets. The general preparedness level of enterprises is analyzed in the National Euro Changeover Plan, including any specifics for SMEs. Detailed processes will be explained in Manual for the Preparation of Entrepreneurs. The Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic should be involved in the preparation of manual. The SME sector will bear a relatively higher burden of costs arising from the euro introduction, as corroborated by experience of Slovak companies. Businesses have major concerns about the conversion of accounting and information systems.

Key Words: *euro area enlargement, National Euro Changeover Plan, Manual for the Preparation of Entrepreneurs*

JEL Classification: *F36, G30, M20*

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1. Introduction

Upon its accession to the European Union, the Czech Republic undertook to adopt the single European currency. Thorough preparation of enterprises must precede the transition from the koruna to the euro. This preparation will eliminate the risk of destabilization in business sector and in financial markets. The objective of the paper is to the current state of support provided in the area of preparation for the euro adoption within the SME sector and potential areas that need further expansion of such support.

The structure of the paper is as follows. The review of literature in the given area is followed by an assessment of views prevailing among SMEs in respect of the euro introduction. It is also supplemented with current public opinion (i.e. views of voters) regarding the euro introduction. It is followed by discussion, whether the euro introduction in the Czech Republic represents a current issue. The next part deals with measures that are to be implemented by companies to ensure successful conversion from Czech koruna to the euro, emphasizing various specifics of the SME sector. The last part of the paper evaluates, whether the existing support of the euro adoption preparation process is sufficient. The conclusion summarizes the key findings of individual sections of the paper.

2. Literature Review

The evaluation of views of the Czech public regarding the euro introduction has been taken over from the Eurobarometer surveys (EC) and the Czech Public Opinion Research Center. The views of SMEs are particularly explored in surveys by the Small and Medium-Sized Enterprises Union of the Czech Republic and of the Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic.

The preparations of companies for the euro introduction are mainly included in the *National Euro Changeover Plan for the Czech Republic* prepared by the National Coordination Group. In addition to this, there are many studies that examine the preparations for the euro introduction as well as the effects thereof, particularly *Study of the Impact of the Euro Adoption* (Lacina et al., 2008). Approaches of various Slovak companies to the euro introduction process are also inspiring, mainly included in a study of the National Agency for the SME Development entitled *Preparedness of SMEs for the euro introduction* (2008) and in a study prepared by the National Bank of Slovakia entitled *Estimate of potential effects of the euro introduction* (2006).

Moreover, the paper also relies on findings from the dissertation of M. Sudrichova *The introduction of the single European currency, the euro, in the Czech Republic from the perspective of small and medium-sized enterprises* (2012). For the time

being, there is only one methodological guide, focused on the SME sector and the transition from the national currency to the euro, entitled *Fit for the euro - A guide for small & medium-sized enterprises* (EC, 2006); however, it is too general and shallow.

3. Views of SMEs regarding the euro introduction in the Czech Republic

Significant changes have occurred in terms of the views of the SME segment. Let us compare results of two different surveys.

In a survey organized by the Small and Medium-Sized Enterprises Union of the Czech Republic in November 2007 (300 respondents), 73% of all respondents answered “definitely yes” or “rather yes” to whether they support the euro introduction in the Czech Republic. The euro introduction process was mainly supported due to elimination of the CZK/EUR exchange rate fluctuations and thus facilitation of trade with euro area countries. 60% of all business believed that the Czech economy is prepared for the euro introduction and that their products are competitive. 80% of all respondents expected increasing inflation as a result of the euro introduction.²

The views expressed in a survey conducted by the Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic in May 2010 (525 respondents) were quite different. Only 20% of entrepreneurs answered “I absolutely agree” or “I rather agree” to whether quick euro introduction would promote exports. The lack of interest in the euro is explained in the survey comments by the lack of trust in the euro area economy (debt crisis).³ In this regard, the Czech Chamber of Commerce adds that the lack of interest in the euro is also associated with the fact that many small and medium-sized enterprises do not export.⁴

There have been no recent surveys conducted among SMEs relating to the euro introduction in the Czech Republic. To get some understanding, we will use surveys relating to the euro introduction, as conducted by the European Commission (Eurobarometer, April 2015, 1,000 respondents). We rely on the premise that these views substantially replicate the views of SMEs. According to the survey, only 29% of respondents answered either “strongly in favor” (7%) or “rather in favor” (22%) of the euro introduction. Only 8% of respondents wish the euro introduction “as soon as possible”, while 63% would like the euro to be introduced “as late as possible”.⁵

² Small and Medium-Sized Enterprises Union of the Czech Republic. *Euro introduction opinion poll*. 2007.

³ Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic. *5th Survey of ASME. Views of businesses concerning electoral programs*, 2010.

⁴ Czech Chamber of Commerce. *Only one fifth of business in favor of the euro adoption*. 2010.

⁵ European Commission, 2015, pp. 66, 69.

How can these changes in the views on the euro introduction in the Czech Republic be explained? Let us examine surveys that resulted in a predominantly negative position regarding the euro (Public Opinion Research Center, 2015, p. 2):⁶

- In April 2006, there were 45% of euro advocates compared to 43% of euro opponents;
- In April 2007, the results were 45% to 48%.

Therefore, the given change cannot be attributed to the financial crisis or the subsequent economic recession that started in the United States, later shifting to Europe. The mortgage crisis in the United States broke out until during the summer of 2007; the banking crisis broke out until in the fall of 2008 (bankruptcy of Lehman Brothers on 15 September 2008). Some banks in Great Britain, German, Benelux, and Iceland started to experience problems at the time. The first year of recession in the EU was only in 2009.⁷

Changing views regarding the euro are significantly associated with political changes in the Czech Republic:

- In November 2005, the Cabinet of the Czech Social Democratic Party decided to introduce the euro as of 1 January 2010;
- Right-wing Cabinet took office in September 2006, revoking the euro introduction date one month later.

Therefore, the development of public opinion (= views of voters) is related with the negative position of the new political representation – not only to the euro introduction, but to the European integration as a whole. This opinion is also supported in the commentary to the Eurobarometer survey conducted in the fall of 2007: “However, the public opinion regarding this European project [i.e. the euro] were evidently impacted by the views of the predominant part of the Czech Government coalition: the support went down by 7 percentage points, currently being significantly lower than the long-term stable average of EU 27.”⁸

Other reasons for rejecting the euro by the public (in addition to the position of the political representation) are:

- Concerns about inflation (Thalassinos, Ugurlu & Muratoglu, 2012) effects arising from the euro introduction (73% of respondents expect that the euro introduction “will result in price increase”⁹);
- As of 2010, debt-related problems of some euro area countries (there were sharp changes in the views regarding the euro in 2010 and particularly in 2011; the shares of advocates/opponents became then became constant).

⁶ Public Opinion Research Center. *Citizens on the euro adoption and the impacts of Czech accession to the EU*. April 2015.

⁷ For the crisis description, see, for example, Czesany, 2013.

⁸ European Commission, 2007, p. 27.

⁹ European Commission, 2015, p. 75.

4. Perspectives of the euro introduction in the Czech Republic (discussion)

Many significant measures have been taken in the Czech Republic in the course of the preparation for the euro adoption. These measures were also officially acknowledged by the European Commission in July 2007. The Czech Republic was identified as a good example of timely preparation even without a set target date.¹⁰

4.1 Institutional preparation

The main measures in the form of strategic decisions and institutional measures are as follows:

- *Euro Area Accession Strategy* and *Updated Euro Area Accession Strategy* (2003, 2007);
- *Institutional Arrangements for Introduction of the Euro* (2005), which contain the establishment of the National Coordination Group for the Euro Adoption in the Czech Republic (NCG) and of the national coordinator; in the period of 2007 – 2014, the NCG submitted nine reports on its activities to the Government;
- *Choice of Scenario for the Introduction of the Euro* (2006) – in the form of big-bang – i.e. one-step introduction of the euro for cash and noncash transaction;
- *National Euro Changeover Plan for the Czech Republic* (2007); in the period of 2008 – 2010, the NCG prepared three *Reports on the National Plan Fulfillment*;
- In February 2008, a website of the Ministry of Finance dedicated to the euro introduction was launched – *Euro Introduction in the Czech Republic* (www.zavedenieura.cz);
- The Ministry of Finance prepared a draft *General Act on the Introduction of the Euro in the Czech Republic* (2008);
- *Act on the Czech National Bank* (CNB) that governs activities of the CNB following the euro introduction in the Czech Republic; it was vetoed by President Klaus on 3 June 2010;
- The Ministry of Finance and the Czech National Bank publish their annual *Assessments of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Republic with the Euro Area*;
- Each year (in the period of 2004 – 2014), the Government approves the *Convergence Program of the Czech Republic*, which is prepared by the Ministry of Finance and which mainly assesses the situation of public finance;
- In the period of 2007 – 2009, the NCG prepared six methodology texts (rules for conversion and rounding of monetary amounts, procedures for

¹⁰ Commission of the EC, *Fifth Reports on the Practical Preparations for the Future Enlargement of the Euro Area* (2007).

dual assessment, financial sector preparation, price development monitoring following the euro introduction, estimate of budgetary expenditure, communication strategy) as well as the text *Preparing the legal environment* (March 2009).

As of April 2011, the period of the so-called reduced preparations starts, with further preparations only consisting in, for example, the monitoring of foreign practice/experience, informing the public through dedicated websites, revision of methodology papers, etc.

4.2 Determining the euro introduction date

Institutional Arrangements for Introduction of the Euro (November 2005) set a “working date” for the euro introduction – i.e. 1 October 2010. On 25 October 2006, the Government of the Czech Republic decided not to attempt the accession to the exchange rate mechanism ERM II in 2007, which resulted in the annulment of the original plan to enter the euro area in 2010. *The Czech Republic’s Updated Euro Area Accession Strategy* (August 2007) confirmed both the annulment of the original date (2010) as well as the absence of a new specific date for the planned accession to the euro area. The annually published *Assessments of the Fulfilment of the Maastricht Convergence Criteria* have included the same recommendation for the Government of the Czech Republic since 2006 – i.e. not to set a date for the accession to the ERM II mechanism and, consequently, the euro area.

A positive position on the euro introduction was expressed in the Policy Statement of the new coalition Government of the Czech Republic (January 2014): “The Government shall actively strive to create conditions conducive to the adoption of the euro.” “The Government shall support steps towards the deeper coordination of economic and fiscal policy and towards the restoration of confidence in the European financial sector. **It shall revise the existing reticent opinions** on monetary integration and financial cooperation.”¹¹ (highlighted by M. H.)

According to the Prime Minister, the euro could be adopted in 2020¹² or in 2019-2021¹³ according to the Minister of Industry and Trade. In the light of these positive stands regarding the euro, the public opinion (i.e. views of voters) have also changed positively – for the first time since the start of debt problems in the euro area in 2010. According to the Public Opinion Research Center (above mentioned survey), there has been a 5 pp increase in answers “favoring the euro”, coupled with a 7 pp

¹¹ <http://www.vlada.cz/en/media-centrum/dulezite-dokumenty/policy-statement-of-the-government-of-the-czech-republic-116171/>

¹² <http://www.denik.cz/ekonomika/euro-v-cesku-premier-mluvi-o-roku-2020-20140411.html>

¹³ <http://www.investicniweb.cz/zpravy-z-trhu/2014/4/14/mladek-euro-by-mohlo-byt-v-cr-prijato-v-letech-2019-2021/>

decline in answers “opposing the euro”; all this in spite of the fact that the debt crisis is still not over.

Therefore, are the preparations of the Czech business sector for the euro introduction topical? They most certainly are. The following circumstances suggest speedy introduction of the euro in the Czech Republic:

- Czech economy complies with the Maastricht convergence criteria (required nominal convergence) with the exception of the involvement of the Czech koruna in ERM II system;
- The real convergence level to the euro area economy is sufficient as well;
- Most administrative, organizational, and institutional preparations for the euro introduction have already been carried out;
- There has been a positive change in the position of the significant part of the political representation in terms of the euro introduction; and
- More positive views of the public on the euro.

5 Specifics of preparations for the euro introduction in the SME sector (empirics)

5.1 Enterprises preparing for the euro introduction

The preparation of the business sector for the euro adoption is mainly described in the *National Euro Changeover Plan for the Czech Republic (2007)*, specifically in Part II *Specification of Tasks in Individual Sectors*. In Chapter 4 “The non-financial sector and consumer protection”, it particularly concerns Section 4.5 “**Main corporate aspects of the changeover**”. The specified key tasks associated with the euro changeover are as follows:

- Conversion of prices and the dual display of prices;
- Conversion of corporate reporting;
- Conversion of corporate information systems;
- Staff training for cash handlers (problems particularly during the dual circulation period).

Large and medium-sized enterprises are advised to appoint a person (coordinator) responsible for the euro changeover. It is not essential for SMEs to establish a separate post of coordinator - this is primarily a matter of assigning responsibilities (to the finance director, executive director, etc.).¹⁴ “Business information points” should provide necessary support to small businesses during the euro preparation period.

Moreover, the *National Euro Changeover Plan* also specifies five areas that require particular attention in the course of the preparation for the euro adoption.

1) Capacity aspect

¹⁴ The recommendation not to appoint a coordinator is in Part I Basic Information, Chapter 6 *The national coordinator’s recommendations*, p. 27.

It is necessary to have some financial reserves that would cover the transitory cost increases. Moreover, it is necessary to consider temporarily higher workload for employees (including higher payroll costs). “Smaller businesses” are specifically mentioned in terms of the two capacity aspects. Their budgets are hit harder, as they might also need to hire additional personnel.

2) Investments

The euro changeover will require new accounting software, marketing databases, logistics systems, etc. However, these changes would have to be made sooner or later anyway – it is thus advisable to take advantage of these changes and modernize the corporate processes and to ensure they coincide with the euro adoption date. There are no differences for SMEs in this regard.

3) Financial management, planning, and accounting

The emphasis is put on timely assessment of effects of the euro adoption, particularly in the area of financial operation, purchases, and sales. There will be adjustment, cancellation or establishment of new contractual relations between the firm and banks. The intensity of these changes, as well as the preparation for these changes, will also depend on the company size.

4) Frontloading with cash and dual circulation

This area will be more demanding for SMEs compared to large enterprises, which also results from area no. 1 – SMEs will have problems with personnel that would ensure timely distribution of cash and dual currency circulation.

5) Redefining a company’s market position

Small businesses tend to plan in the short run. They plan their commercial strategies with regard to short-term benefits/costs of exchange rates. Upon the arrival of the single currency, they will be compelled to focus at least on the medium run in the interest of maintaining their competitiveness. They will have to assess the position of their existing business partners and, where relevant, they will have to choose “a new primary business objective under the euro area conditions prevailing”.¹⁵

With regard to a communication campaign, *National Euro Changeover Plan* addresses it in Chapter 6 *Information sources and communication*. According to the Changeover Plan, communication campaign target groups comprise – within the private sector – “sole traders” and “small and medium-sized enterprises”; however, without specifying any differences in more detail.

Analytical paper of the Ministry of Industry and Trade *Analysis of Impacts of the Euro Adoption on Economic Sectors within the Responsibility of the Ministry of Industry and trade* (2006) examines, among others, the **Views of businesses regarding the euro adoption** within individual national economy sectors. In doing so, it does not distinguish different company sizes. However, the survey results from the chemical industry are typical (p. 10):

¹⁵ The euro introduction will also affect the export capabilities of SMEs. For more on this, see Helisek, 2013, for example.

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- “In the area of accounting, invoicing, identification, packaging, system of payments, etc., there will be no major problems with the euro changeover in companies with foreign ownership interests, as their systems are built on international standards and subject to detailed audit. Moreover, most trade contracts that are currently being concluded include pricing mechanisms relying on the euro. Additional costs will rather be incurred by **small and medium-sized enterprises** (highlighted by M. H.) that have not had sufficient experience with this area.”
 - “The euro introduction will require modifications to companies’ software solution, sometimes even significant ones. The budgets of **small and medium-sized enterprises** will be hit harder (highlighted by M. H.), as these businesses usually have to purchase such software solutions from specialized companies. Large companies generally feature technically and legislatively advanced systems already (particularly SAP), so the euro changeover process will be rather smooth and trouble-free here.”

Manufacturers from the furniture industry stated that “they would also welcome Government support in the form of funding programs aimed at the preparation for the CZK to EUR transition, particularly for SMEs.” (p. 23).

The paper also contains a separate chapter entitled *Small and medium-sized enterprises*; however, it does not address the preparations for the euro introduction but the implications thereof. It only states that, based on existing experience of SMEs from the current euro area, the sector “has not been significantly affected”. The reason for this was that the “changeover process was prepared to minimize any adverse impacts” (p. 39). The paper does not list any specific experiences with such preparations.

The preparation and process of the euro introduction are a challenge for business management (euro introduction affects accounting, human resources, marketing). The M-C model can be here applied.¹⁶

5.2 Costs of the euro introduction

In specifying the costs that would be incurred by companies in connection with the euro adoption, we can rely on the above mentioned “Main corporate aspects of the euro changeover”. Authors of the *Study of the Impact of the Euro Adoption on the Economy of the Czech Republic* (Lacina et al., 2008, pp. 74-78) broke the costs down as follows:

- 1) Costs of adapting information systems (conversion of IT systems to the euro, including any links between such systems, SW updates, user trainings);

¹⁶ See Havlicek, Schlossberger, 2013.

- 2) Information and education campaign (provision of information to suppliers, customers, and own staff, costs of postage and print, higher call center capacity);
- 3) Preparation of new pricelists, tariffs, information materials and catalogues (marketing pricing, costs of intercompany regulations, staff costs);
- 4) Dual cash handling (possible cash operations in CZK and EUR, counterfeiting equipment);
- 5) Costs of exchanging and securing cash (collection and transport of cash to bank or the company, as appropriate).

All these costs are expected to be higher for large enterprises compared to SMEs, on absolute terms, as particularly IT products will be “customized” to such companies. Although absolute costs of SMEs will be lower, they will be higher relative to their turnover.

In quantifying these costs, we will rely on findings collected for the Slovak economy. The survey conducted by the National Bank of Slovakia (NBS) among SMEs (955 firms responded) and large enterprises (68 firms responded) prior to the euro introduction concluded that Slovak SMEs expect average costs of 0.27% of their annual turnover, compared to 0.09% for large enterprises.¹⁷ The results are shown in Table no. 1 below.

Table 1. Estimated costs of the euro introduction incurred by Slovak businesses (as a share of annual turnover; %)

Number of employees	Costs
Small and medium-sized enterprises	
Micro enterprise (up to 9)	0.22
Small enterprise (10-49)	0.29
Medium-sized enterprise (50-249)	0.28
Average	0.27
Large enterprises	
250-499	0.24
500-999	0.11
1000 and more	0.07
Average	0.09

Source: *Narodna banka Slovenska, 2006, p. 15*

Large enterprises have higher costs of the euro introduction compared to SMEs; however, their budgets are not hit as hard. According to the NBS survey, the

¹⁷ These findings were also partially taken over by the *Study of the Impact of the Euro Adoption on the Economy of the Czech Republic* (Lacina et al., 2008, pp. 84-86).

difference partially stems from the fact that large companies tend to have better internal human resources for the euro introduction and partially from the fact that they are better equipped when it comes to negotiating with IT suppliers (discounts, etc.). The reason IT costs are accentuated results from the fact that this area will require most of the costs. This relies on experience from Germany, according to which IT costs amount to 60% of total costs.¹⁸ With regard to dual pricing, this activity does not lead to immediate cost increases, as it is associated with standard changes in prices normally carried out by companies. It may increase costs indirectly, in the form of higher workload for employees/higher payroll costs.

In addition to company size, the costs are also affected by other factors (according to the Narodna banka Slovenska, 2006, pp. 14, 16):

- Companies with owners from euro area countries will have some advantage, as they can rely on their parent companies' experiences;
- Significant differences exist for individual national economy sectors (from 0.1% for banking and insurance industry to 2.0% for mining of mineral resources).

To give you some understanding of specific costs associated with the euro introduction, we will use a case study from the dissertation of M. Sudrichova (2012, p. 96). The author evaluated a Slovak company that produces and sells meat and has 39 employees (in SKK; the conversion rate was 30.1260 SKK/1 EUR):

- Upgrade of a corporate information system	11 250
- Upgrade of cash register software	1 500
- Staff training on the euro security features	6 600
- Transfer of EUR from a bank, SKK to a bank (fuel costs)	50
- Preparing dual price tags in a store	300
- Total (excl. VAT)	19 700

6 Support of preparations by SMEs for the euro introduction (discussion)

Support must be provided to businesses with regard to the euro changeover in the form of rules, methodology guides, and recommendations. Generally speaking, these recommendations are also included in the manual *Fit for the euro - A guide for small & medium-sized enterprises* (European Commission, 2006). It explains price conversion rules, rounding principles, recommendation to check IT systems, analyze contracts, and prepare euro clauses, become familiar with euro banknotes and coins, and train employees on the euro changeover process. However, the provided information is too general and shallow, not intended for practical application.

¹⁸ Clemens et al., 1998, p. 138. In second place is the Marketing / Public Relations (15-20%), followed by staff training (10%).

The National Coordination Group for the euro adoption in the Czech Republic believes that an important measure in terms of the preparation for the euro adoption is the drafting of *Manual for the Preparation of Entrepreneurs* that would mainly be intended to small and medium-sized enterprises. A concept of the manual was prepared in 2008, according to which it would include the following:¹⁹

- General information about the euro
- Schedule of the euro changeover
- Implications of the euro adoption
- Technical preparation of companies and the preparation schedule:
 - Marketing and pricing policy
 - Corporate financing, banking, and accounting
 - Legal aspects
 - Adaptation of information systems
 - Adaptation of cash registers
 - Staff trainings
 - Frontloading with the new currency
- Checklist of activities to be carried out
- Model examples of the euro introduction (retail, hotels, etc.)

The Czech Chamber of Commercial will take part in the manual preparation; the process will rely on experience of Slovakia and Malta.

When comparing the manual concept with the (above mentioned) main corporate aspects of the euro changeover, it is clear that the envisaged *Manual for the Preparation of Entrepreneurs* is cogent and will be beneficial to SMEs in the euro introduction process.

The manual preparation process also envisages that experiences from Slovakia would be used. What were the biggest concerns of Slovak businesses? According to the National Agency for the SME Development of Slovakia:

- Most businesses were concerned about the conversion of accounting and management information systems;
- Moreover, there were concerns about dual cash handling operations (dual circulation period);
- Concerns about ensuring dual display of prices on accounting documents.

Experiences of Slovak businesses also suggest that they preferred “simple and well-arranged information materials” to “detailed guides dealing with all aspects of the

¹⁹ National Coordination Group, 2009, pp. 22-23. The preparation of the *Manual* was confirmed in the Report on Activities of the National Coordination Group for 2013.

preparation of businesses for the euro changeover”. Furthermore, there was not much interest in seminars explaining the euro introduction process.²⁰

7. Conclusion

The euro adoption date is not set for the Czech Republic. Today, skepticism dominates the views of the general public (voters) when it comes to the euro introduction. The same also applies to SMEs.

The Czech economy is prepared well for the euro introduction, both in terms of the nominal and real convergence to the euro area. Moreover, many institutional preparations have been taken with regard to the euro adoption. Since 2011, we have been in the period of the so-called reduced preparations for the euro introduction. However, the perspective of the euro adoption in the Czech Republic is not a long-term outlook, but a medium-term matter (maybe even within the next 5 years). Therefore, it is necessary to strengthen preparations for the euro adoption.

For the purpose of SMEs, it would be beneficial to complete the preparation of the *Manual for the Preparation of Entrepreneurs*. The Guide should take into account practical experiences of Slovak businesses. Not only the Czech Chamber of Commerce (intended by the National Coordination Group for the euro introduction), but also the Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic should be involved in the manual preparation.

The costs of the euro changeover will be relatively higher for SMEs compared to large enterprises. This is positively corroborated by the experience of Slovak businesses. Therefore, the Government should promote the euro changeover by means of a special funding program.

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²⁰ Survey of the National Agency for the SME Development (February – March 2008). Narodna agentura, 2008, pp. 17, 29.

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