

# Mladá veda

Young Science

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# SROVNÁNÍ VÝVOJE KURZU ČESKÉ KORUNY VŮČI EURU, AMERICKÉMU DOLARU, ŠVÝCARSKÉMU FRANKU A BRITSKÉ LIBŘE A SROVNÁNÍ VYSÍLÁNÍ CIZÍCH MĚN V ČESKÉ REPUBLICCE A NA SLOVENSKU

COMPARISON OF THE DEVELOPMENT OF THE EXCHANGE RATE OF THE CZECH KORUNA TO THE EURO, US DOLLAR, SWISS FRANC AND BRITISH POUND AND COMPARISON OF POSTING OF FOREIGN CURRENCIES IN THE CZECH REPUBLIC AND IN THE SLOVAK REPUBLIC

**Kristina Kabourková<sup>1</sup>**

Autorka působí od roku 2008 na Vysoké škole technické a ekonomické v Českých Budějovicích jako akademický pracovník. Specializuje se na účetnictví podnikatelů, zejména pak podnikatelů v zemědělské prvovýrobě, dále na problematiku mezd. Předtím pracovala jako vedoucí účtárny a vedoucí metodička informační soustavy v podnicích, vyučovala účetnictví na střední škole a působila jako osoba samostatně výdělečně činná v oblasti účetního poradenství.

The author has been a member of academic staff at the Institute of Technology and Business in České Budějovice (the Czech Republic) since 2008. She specializes in wages and accounting for entrepreneurs, particularly those engaged in agricultural and its primary production. She previously worked as a senior accountant, a chief methodologist of enterprise information systems, also taught accounting at secondary schools and worked as a self – employed person in the area of accounting advisory.

## **Abstract**

In her paper, the author has compared the development of the exchange rate of the Czech koruna to the Euro, US dollar, Swiss franc and British pound between the years 2004 and 2016. She has found that the koruna did not grow weaker or stronger with respect to each of the currencies at the same pace. In addition, the author has also compared the accounting procedures used for posting of exchange rate differences in accordance with the Czech and

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Slovak legislation. She has come to the conclusion that posting in this respect is virtually identical in the two countries.

Key words: Czech koruna, US dollar, Swiss franc, British pound, exchange rate differences, currency, Money

### **Abstrakt**

Ve svém příspěvku autorka srovnala vývoj kurzu české koruny na euro, americký dolar, švýcarský frank a britskou libru v letech 2004 až 2016. Zjistila, že koruna nebyla slabší ani silnější s ohledem na každou měnu stejným tempem. Kromě toho autorka také porovnávala účetní postupy používané pro vysílání kurzových rozdílů v souladu s českou a slovenskou legislativou. Dospěla k závěru, že vysílání v tomto ohledu je v obou zemích prakticky shodné. Klíčové slova: Česká koruna, americký dolar, švýcarský frank, britská libra, kurzové rozdíly, měna, peníze

### **Úvod**

Money is property that serves as a universally accepted medium of exchange. In the distant past, the function of money was served, for example, by grain (ancient Babylonia), shells (China) or canvas (Slavs). As time went by, precious metals, particularly gold and silver, proved to be the most suitable commodity. They were rare, easily processed, generally accepted and with an unlimited durability. Since the storage of a larger amount of metal coins was risky due to the possibility of their theft, people came up with the idea of certain coin depositories, where such assets were kept for a fee and their owner was given a receipt certifying their ownership. Later, it became possible to pay with the receipt, which resulted in the emergence of paper money – banknotes, with their value symbolizing the amount of the precious metal represented by the banknote. The first paper money probably appeared in ancient China. The reason was trading at great distances between individual provinces and that is why vouchers for specific amounts were created. If stolen, the thief had to prove that they were the authorized person. The printing of paper money, banknotes, started during the reign of the Sung dynasty at the turn of the first millennium.

According to Polouček (2009), money made from precious metals probably appeared in the 7th to 6th century BC. The increased use of metal coins definitely contributed to the development of money exchange and acceleration of monetary transactions. At present, money takes the form of not full-value money and its circulation is forced; it does not have its own value, but preserves its significance as the medium of exchange and an accounting unit. Moreover, it is declared as money by the government, the state guarantees its purchasing power and the supply of money and control over its quantity in circulation is entrusted to the central bank, whose main objective is to maintain the stability of the price level.

Epping (2004) argues that almost all money is in a way virtual, with only silver and golden coins having an actual value. Virtual money has existed since double-entry bookkeeping was invented in medieval Venice. To avoid a somewhat cumbersome transport of heavy coins, bankers started entering each client's assets and liabilities in a book. In the past, the currency value was determined by the government or linked to an object of permanent value. However, most countries left the gold standard in the course of the 20th

century and nowadays, it is the market that decides the value of the most important global currencies.

As Revenda (2005) points out, gold and silver are almost ideal in meeting the requirements for easy and rather cheap exchange for goods and services. When using gold as a monetary resource, no monetary policy is necessary, for the issued quantity depends on the supply of gold, but as far as paper money is concerned, its quantity is decided by the issuer. Furthermore, paper money – banknotes – entirely came into existence at the time of capitalism and free competition. Many buyers among entrepreneurs at that time had no funds for immediate payment of goods and issued commercial notes that were then bought by banks in exchange for their own banknotes. Initially, each bank had the possibility to issue its own banknotes, yet this practice eventually became absolutely disorganized. The issue of banknotes therefore became centralized, and another reason for centralization included the power and financial interests of the state, since printing banknotes was much cheaper than their nominal value.

To cover its growing needs, the state quite often printed a greater number of banknotes than the amount of currency metal in its hands. Thus, money lost some of its value and this resulted in inflation, which was particularly the case at times of / after wars, e.g. the hyperinflation in Germany after World War I, when somewhat reckless printing of money completely devastated the economy (already ruined due to the war). After World War II, the economies of individual countries abandoned the practice of backing banknotes with precious metals. Precious metal was no longer used as money, was replaced with banknotes printed by the central bank and as a result, inflation tends to occur more often than in the past. Also, today's currencies are based on paper banknotes and coins issued by individual states. For instance, in the Czech Republic, it is the central bank – the Czech National Bank – that holds the monopoly over issuing money. In addition to cash, there are the so-called money substitutes (whose value depends on the possibility of converting them into money), i. e. non-cash money or deposits with commercial banks. The stability of each banking system and the entire economy depends on the possibility of converting deposits into cash immediately.

Rais and Drdla (1999) state that the most prominent functions of the central bank include the issue of cash currency, functioning of the bank over commercial banks, implementation of the currency policy, tasks with respect to the state budget, implementation of banking control and supervision, management of the state's foreign exchange reserves and representation of the state in international financial and monetary institutions. In addition, the nominal exchange rate is the price of one currency expressed in the units of another currency. It is very difficult to predict as it is influenced by the supply and demand for the applicable currency, the balance of trade and payments, the amount of interest rates and the current political and economic situation in the region concerned.

According to Revenda (2005), currency is seen as the national form of money. The Czechoslovak koruna (in circulation from 1919 to 1939 and from 1945 to 1993) was the first separate currency used on the territory of former Czechoslovakia. Initially, all of the banknotes were withdrawn from circulation, marked with revenue stamps and 50% of them temporarily returned to circulation. The other half of the withdrawn money was then covered

by the issue of government bonds. By the mid-1920s, the stamped banknotes were replaced with new Czechoslovak treasury notes.

As Durčáková and Mandela (2007) remark, the currency exchange market is used for trading in cash with foreign currencies, coming in the form of coins or banknotes, and works particularly in the context of tourism. The foreign exchange market, also the OTC market, is implemented by means of telephone and computer connections between dealers on individual markets. The most important system for clearing operations is SWIFT (Society for Worldwide Interbank Financial Telecommunications, in existence since 1977), an international communication network designed for international financial transactions between banks.

### **Methodology and Objectives**

The main objective is to find out whether the average exchange rate of the Czech koruna (according to the Czech National Bank) developed identically with respect to the Euro, US dollar, Swiss franc and British pound between 2004 and 2016, with particular statistical data on CZK exchange rates being used as the basis. It is hypothesized that during the period under review the exchange rate of the Czech koruna increased or decreased at the same pace in relation to the Euro, US dollar, Swiss franc and British pound. The other objective is to compare the process of posting of foreign currencies in accordance with the legislation of the Czech Republic and the Slovak Republic. It is hypothesized that the prescribed procedures are identical.

### **Results**

Firstly, the term “exchange rate” refers to the price of a specific currency in relation to another currency. According to Epping (2004), currency traders may bet on the increase or decrease of a specific currency (similarly to a commodity trader betting on the increase or decrease of wheat prices). Nobody can be absolutely certain, however, of the direction the currency markets will actually take.

Secondly, to give a brief overview of the discussed currencies, US dollar (USD) is the official currency of the United States of America and some other countries, e.g. Puerto Rico, Panama, etc. It was introduced in the USA in 1785 and its name is derived from the Jáchymov thaler. In the first decades of the 20th century, it was the world’s official reserve currency, but its importance declined toward the end of the 20th century. The Euro (EUR) is the currency of the Eurozone and the official currency of most European Union countries. Its foreign exchange form has been valid since 1999 and its foreign currency form since 2002. The monetary policy of the Eurozone is governed by the European Central Bank. The Euro may be adopted as its official currency by any country that meets 5 economic indicators, i.e. the Maastricht criteria. The Swiss franc (CHF) is the statutory currency of Switzerland and Liechtenstein as well as an Italian enclave on the Swiss territory – Campione d’Italia. The British pound sterling (GBP) is the statutory currency of the United Kingdom and British Territories. Originally, sterling was the name of a silver coin used for payments in England at the time of the Normans, whilst pound was a unit of weight. In 1971, this currency underwent an adjustment to the decimal system.

Next, the average annual exchange rates of the Czech koruna (based on the Czech National Bank) to the Euro, US dollar, Swiss franc and British pound between 2004 and 2016 are given in the following table, i.e. Table 1. The author collected the data from kurzy.cz, spol. s r. o. Alie Web, spol. s r. o.

| Year | Euro   | US dollar | Swiss franc | British pound |
|------|--------|-----------|-------------|---------------|
| 2004 | 31.904 | 25.701    | 20.660      | 47.051        |
| 2005 | 29.784 | 23.947    | 19.237      | 43.552        |
| 2006 | 28.343 | 22.609    | 18.023      | 41.579        |
| 2007 | 27.762 | 20.308    | 16.906      | 40.617        |
| 2008 | 24.942 | 17.035    | 15.717      | 31.422        |
| 2009 | 26.445 | 19.057    | 15.514      | 29.697        |
| 2010 | 25.290 | 19.111    | 18.328      | 29.485        |
| 2011 | 24.586 | 17.688    | 19.980      | 28.348        |
| 2012 | 25.143 | 19.583    | 20.861      | 31.015        |
| 2013 | 25.974 | 19.565    | 21.102      | 30.595        |
| 2014 | 27.533 | 20.746    | 22.667      | 34.164        |
| 2015 | 27.282 | 24.599    | 25.577      | 37.595        |
| 2016 | 27.033 | 24.432    | 24.796      | 33.121        |

Table 1 - Average Annual Exchange Rates of the Czech Koruna to Selected Currencies  
Source: kurzy.cz, spol. s r. o. Alie Web, spol. s r. o.

Additionally, the exchange rates of the Czech koruna to the above currencies in the first few months of 2017 were as follows: a) the Euro – 27.020 (the first quarter of 2017), 26.824 (April 2017), 26.564 (May 2017); b) US dollar 25.378 (the first quarter of 2017), 25.020 (April 2017), 24.017 (May 2017); c) Swiss franc 25.267 (the first quarter of 2017), 25.007 (April 2017), 24.360 (May 2017); d) British pound 31.418 (the first quarter of 2017), 31.626 (April 2017), 31.037 (May 2017).

Then, in the following table, i.e. Table 2, the author compares the percentage of the Czech koruna to the Euro, US dollar, Swiss franc and British pound, with 2004 serving as the year of reference for the purpose of comparison.

| Currency/year | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012   | 2013   | 2014   | 2015   | 2016   |
|---------------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|
| <b>Euro</b>   | 93.35 | 88.83 | 87.01 | 78.17 | 82.88 | 79.26 | 77.06 | 78.80  | 81.41  | 86.29  | 85.51  | 84.73  |
| <b>USD</b>    | 93.17 | 87.96 | 79.01 | 66.28 | 74.14 | 74.35 | 68.82 | 76.19  | 76.12  | 80.72  | 95.71  | 95.06  |
| <b>CHF</b>    | 93.11 | 87.24 | 81.83 | 76.04 | 75.09 | 88.71 | 96.70 | 100.97 | 102.14 | 109.71 | 123.80 | 120.02 |
| <b>GBP</b>    | 92.56 | 88.37 | 86.32 | 66.78 | 63.17 | 62.67 | 60.25 | 65.91  | 65.02  | 72.61  | 79.90  | 70.39  |

Table 2 - Comparison of the Development of the CZK Exchange Rate in Percentage to Selected Currencies

Source: Author's compilation

Considering the four currencies, the exchange rate dropped in 2005 by about the same amount (to 92.56-93.35%), and in 2006, it also decreased almost equally (to 87.24-88.83% of the baseline). Starting from 2007, however, the development of the exchange rate of the Czech koruna to these currencies varied significantly. After the considerable decline in the value of the Swiss franc in 2008 and 2009, the Swiss currency started strengthening consistently as of 2010. The British pound was the cheapest in 2009 to 2011 – after that, its value started increasing again, but did not reach the values of 2004 to 2007. As regards the Euro and US dollar, the development of their exchange rates with respect to the Czech currency was much different from 2007 until 2012, with the difference increasing again from 2013. Therefore, the first established hypothesis was not confirmed.

Also, it must be pointed out that certain interventions of the Czech National Bank affected the exchange rate of the Czech koruna. According to its governor, Jiří Rusnok (2017), the Czech economy went through a period of economic downturn in 2012-2013. The Czech National Bank responded by reducing interest rates to technical zero (0.05%) at the end of 2012 and undertook to keep interest rates at this record-low level as long as necessary in order to maintain price stability and thereby contribute to the stable development of the Czech economy. The koruna exchange rate was weakened, which helped the economy take a little breath. In case of an inactive currency policy, the Czech economy could have plunged into deflation for at least 2 – 3 quarters in 2014. Deflation can be very hard to stop as soon as it develops and its prevention is therefore much better than any attempts at treating it afterwards. The threat of a deflation trap was warded off owing to the weaker exchange rate and economic growth picked up in speed. The interventions of the Czech National Bank were abandoned in April 2017 and according to Rusnok, the exchange rate commitment fulfilled its role and expectations. However, Petr Macinka (of the Václav Klaus Institute) argued that this experiment should never have taken place as it was not required, was risky and its impact on the inflation was not effective. Jakub Seidler, the Chief Economist for ING, stated that the Czech National Bank's interventions between November 2013 and March 2017 were worth two trillion CZK. Although the Czech Prime Minister, Bohuslav Sobotka, defended the actions of the central bank, the former Czech president Václav Klaus described the



commencement of the interventions as a wrong and risky step, and the current president Miloš Zeman even said that the interventions had never benefited anyone and led to losses. As well as that, the interventions were sharply criticized by one of the Czech economists Ilona Švihlíková who argues that the outflow of CZK 488 billion from the Czech Republic to non-residents last year was a much more harmful occurrence. She claimed that due to the Czech National Bank's interventions, a huge amount of national labour was exported for free, which is arguably something that may be seen in developing countries.

Recently, the issue of when the Czech Republic should adopt the Euro as its official currency has resurfaced. Experts are not once again unified on which approach is suitable for the Czech Republic. According to Švihlíková, the Euro has emerged as a political project and is a malfunctioning currency. If a single currency is operated on a territory with large differences in the structure of economy, geography, institutions and their roles, wage levels, etc., a special redistribution mechanism is essential. The Euro is not in line with the Czech Republic's national interests and will disastrously restrict the already insufficient economic manoeuvring space. As the MEP and former Vice-Governor of the Czech National Bank Luděk Niedermayer remarked, there is a very real scenario that Europe will turn into a multi-speed project with some core of European integration and then the rest, and it will be unclear to what extent the rest has any influence on the direction the continent is headed, with the Euro being most likely the border line between the two camps. Eventually, as other Czech economist Markéta Šichtařová puts it, the Eurozone would not admit that the adoption of the Euro destroyed Greece.

To look into the other area of interest, one of the underlying principles of the Accounting Act is, according to Ryneš (2017), the provision that orders accounting units to keep accounting records in the Czech currency as well as the obligation to post selected asset and liability items listed in Section 4(12) of Act No. 563/1991 Coll., on Accounting, in foreign currencies. In accordance with that Act, accounting units are obliged to use a foreign currency in case of receivables and payables, shares in business corporations, rights arising from securities and book-entry securities and derivatives and valuables, if expressed in a foreign currency. This obligation also applies to adjustments, provisions and technical reserves provided that the assets and liabilities they apply to are expressed in a foreign currency.

Moreover, specific exchange rate differences, generated when posting in a foreign currency, are dealt with by the Czech Accounting Standard for Entrepreneurs No. 006. As specified in it, the exchange rate differences in the valuation of assets and liabilities are posted as per the balance sheet:

- a) if there is an exchange rate profit, it is posted to the debit of the respective asset or liability account with a corresponding entry to the credit of the respective account in the account group 66 – Financial revenues, or
- b) if there is an exchange rate loss, it is posted to the debit of the respective account of the account group 56 – Financial costs, with a corresponding entry to the credit of the respective asset or liability account.

As Ryneš (2016) further states, the exchange rate differences are posted during the year in financial costs and revenues at accounts 563 – Exchange rate losses, or 663 – Exchange rate profits, in the amount of the difference between the exchange rate at which the receivables, payables, loans, financial assistance and securities, shares and derivatives kept in the foreign currency were valued on the date of implementation of the accounting case and the exchange rate on the date of their payment or sale based on the current account statement. The exchange rate differences at this amount are captured in correlation to resultant accounts 563 and 663 at the respective asset and liability accounts. The receivables, payables, valuables in foreign currencies and the foreign currency cash desk as well as the foreign exchange account are translated to the Czech currency in accordance with Section 4(12) and 24(6)(b) of the Accounting Act on the balance sheet date on which the financial statements are compiled, using the exchange rate of the foreign exchange market determined by the Czech National Bank. The difference from the re-valuation of these assets and liabilities on the balance sheet date is posted at account 563 – Exchange rate losses, and 663 – Exchange rate profits.

Put into a different perspective, the Slovak Republic introduced the Euro as its official currency on January 1st, 2009. From that date until January 16th, 2009, it was possible to use Slovak koruna coins and banknotes for cash payments as well, but any money returned was the Euros – in the first twelve countries of the Eurozone, this dual system took a total of two months, yet this period turned out to be unnecessarily long. On December 16th, 2002, the Ministry of Finance of the Slovak Republic issued a guideline (updated on January 1st, 2016) under number 23054/2002-92, laying down details on posting procedures and a framework chart of accounts for entrepreneurs who use double-entry accounting. In accordance with Section 24 of this guideline – Posting exchange rate differences, the accounts of receivables, payables, fixed and current financial assets are used to post exchange rate differences generated in accounting on the date of implementation of the accounting case due to the collection of receivables, payment of payables and sale of fixed and current financial assets, with a corresponding entry to the debit of account 563 – Exchange rate losses, or to the credit of account 663 – Exchange rate profits. The exchange rate differences are posted on the date of implementation of the accounting case. On the date of the compilation of financial statements, the exchange rate difference from the valuation of assets and liabilities pursuant to Section 4(7) of the Act is posted to the debit of account 563 – Exchange rate losses, or to the credit of account 663 – Exchange rate profits (except for cases involving securities, derivatives and shares in registered capital).

Finally, the aforementioned implies that there are no principal differences between the Czech and Slovak regulations with regards to posting in foreign currencies. Thus, the second established hypothesis was confirmed. The author assumes that the great similarity of the accounting procedures is the consequence of the existence of a former joint country, i.e. Czechoslovakia.

## **Conclusion**

The author compared the development of the exchange rate of the Czech koruna to the Euro, US dollar, Swiss franc and British pound between 2004 and 2016. Compared to 2004, the

Euro and the US dollar were found out to have lost approximately the same percentage in their values during 2005 and 2006, and in relation to the Czech koruna, the price of the Euro, US dollar, Swiss franc and British pound varied significantly from 2007 to 2011. There was a change in 2012, since the CZK exchange rate to the Euro and US dollar differed by about 2 to 3%, the price of the Swiss franc amounted to approximately the 2004 level, whilst the British pound was about 34% cheaper. In 2013, the differences started growing once again, further continuing in the years to come. As of 2012, the Swiss franc was steadily growing in value and compared to the baseline year 2004, its value increased by almost 124% by 2016. From 2004 until 2016, however, the value of the British pound dramatically dropped to about 70% of the baseline.

In addition to her research, the author established that the guidelines for posting in foreign currencies did not basically differ in the Czech Republic and the Slovak Republic. Also, based on the author's opinion, it is not reasonable to rush into adopting the Euro as the single currency is suitable for a territory with a more or less level economic background. In particular, she believes that a unified legislative framework is the primary prerequisite for successful operation, and to ensure the smooth existence of a functional and trouble-free single currency, it is first necessary to adopt equal legislation concerning taxes, health insurance, social security, pension insurance, minimum wages, etc. However, this is totally infeasible in the European Union for the time being, since each member state has undergone a specific economic, political and legal development. The author therefore perceives the Euro today only as a political instrument without any rational backing. She thinks the issue of whether, when and which countries will adopt the Euro is absolutely marginal. At present, considering the tragedies that have taken place in different parts of Europe in recent months and years, European leaders should primarily deal with the everyday safety of people and their lives. Then, the author absolutely agrees that it is necessary to greatly help people living in war zones and claims that it is also essential to assist poor countries to make sure life in them is tolerable for their inhabitants so that they could see some perspective for themselves. This assistance, however, must go straight to the countries concerned, and more significantly to areas, where the related problems arose. Europe cannot absorb hundreds of thousands of refugees as it is not technically feasible in a short span of time, and a particular obstacle is the fact that the migrants come from somewhat culturally incompatible communities. Although multiculturalism is a fair-sounding theory, the author believes it cannot work well in Europe that is characterised by the existence of nation states, where the population has shared a similar fate for centuries and has got similar customs or traditions stemming from certain Jewish-Christian principles. Quite logically, efforts to forcefully implement foreign customs only result in the negative response of local people. Apart from that, the individuals coming to Europe are not often capable of or interested in adapting themselves to the customs of the host countries, and there is a major risk that they would be concentrated in ghettos, which may then become breeding grounds for crime.

*Tento článok odporúča na publikovanie vo vedeckom časopise Mladá veda: Ing. Pavel Rousek, Ph.D.*

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