Discussion: The effect of euro adoption on firm-level exports

(by T. Lalinsky and J. Meriküll)

João Amador

Banco de Portugal and Nova School of Business and Economics

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The opinions are those of the presenter and do not necessarily coincide with those of Banco de Portugal
Joining the euro

- Gains from price stability
- Reduction of transaction costs
- Elimination of exchange rate risk (intra-area trade)
- Lower number of macroeconomic adjustment tools
The natural experiment

- Slovakia (2009) and Estonia (2011) joined the euro area and (firm-level) trade flows were affected

- Diff in diff methodology: Treatment group - firm bilateral trade flows to markets affected (euro area); Control group - firm bilateral trade flows to markets not affected (non-euro area EU)

- Advantage - these countries entered the euro area alone (no adverse competition effect from other countries joining simultaneously)

- Different exchange rate regimes (Slovakia - floating exchange rate; Estonia - currency board)
Main results

- Euro increases the probability of exporting by 1.7% in Slovakia and 4.2% in Estonia. At the product level the increase is 1.9% in Slovakia (not significant in Estonia).

- Total increase in Slovakian exports of 14% (not significant in Estonia), due to the average exported value per product in each destination.
TFP, size groups and other characteristics

- Gains from adopting the euro are broadly equally distributed along productivity quartiles (not significant in Estonia).

- Gains from export volumes are broadly equally distributed across firm size (not significant in Estonia).

- No clear differential effect for young, FDI or indebted firms. This is quite surprising as FDI firms should have prior arrangements that reduce transaction costs.
Effects along the distribution of exports, and over industry and product groups

- On the **extensive margin** large effects for higher percentiles (those exporting many products increased portfolio)

- On the **intensive margin**, larger effects on the lower percentiles (smaller exporters increased average export per product the most)

- As for **industries**, not many significant results (even less in Estonia). Export decision per destination vs total exports per destination sometimes with opposite results.

- As for **product groups** in Slovakia, visible positive effect in the probability to export capital goods and in terms of average export per product across product groups (except raw materials) (results broadly not significant in Estonia).
Comments & suggestions

- Across the paper, results for Estonia are largely not significant. This is not necessarily bad but requires an explanation. Is the previous currency board regime the explanation? Reduced number of observations in the Estonian database?

- Try to assess the impact of the implementation of the currency board in Estonia or any other major integration step.

- The later accession of Estonia means that the overall (non-monetary) integration process with EU countries was already more advanced?

- The adoption of the euro takes place in a scenario where other elements of the EU integration process occur. Document the adoption of EU regulations.
Comments & suggestions

- Is the effect of the global economic and financial crisis and sovereign debt crisis in the euro area (major/long shock) fully controlled for by the year-sector fixed effects?

- The effect coming from the adoption of the euro may go well beyond the reduction in transaction costs, e.g., impact on the overall confidence of the economy.

- Only manufacturing firms are considered in the samples. Nevertheless, wholesalers play a large role in international trade. These firms may be the exit door for small exporters.

- Try replicating analysis with imports? (another paper)
Comments & suggestions

- One year lagged TFP may not be enough control for firm’s productivity. Other possible variables (ROA, labour productivity, market share in domestic market)

- Control for entering and exiting firms. A balanced panel as a robustness?

- FDI firms are key in Slovakia. These firms manage production chains in a complex way and this surely affects firm-level trade flows. However, these results are not visible.

- Considering removing subsection 4.4. Weak results and no clear explanations.