OeNB CEEI Konferenz 2007, Panel discussion 2:

Do Exchange Rates Matter in Corporate Decision Making

Competitiveness is only marginally influenced by exchange rates.

Based on my experience as CEO of predominantly export oriented companies in Austria and Germany within the last quarter century I am total convinced that the importand facts for economic success are to have innovative products, good quality and excellent service. Exchange rates are additional risks for exporting companies but their international competitiveness is only marginally influenced by fluctuating exchange rates.

Austrian (and also German or Swiss) machines producing companies competing for example with US or Asian enterprises **are by far more expensive.** Often our Austrian made machine is more than **double or multiple the price** of the US or Taiwan made machine. We make the deal only if we are really much better, means we are **more innovative and have better quality**. One of our biggest advantages is that we have the **better skilled craftsmen**, who are able to service and handle highly sophisticated machines. In US or Asia you cannot find this species of Austrian, German or Swiss craftsmen.

At the moment we have a big discussion in Austria about our **school system**. The discussion is about primary and secondary school, I am sure improvements are possible, but nobody talks about our unique system of craftsmen education, which is really unique - worldwide. In Northamerica and Asia they have Academic engineers who are as good or sometimes better as ours, but product quality and product development needs first of all excellent mounting and service personell and operaters. It is not enough to have only skilled academic personell on top. Even for product development and innovations our skilled service personnel is very important. They spend most of their time at the customer and give us feedback about the customer needs and how to improve our machine-systems for the customer.

Exchange Rates and Profit:

I have world wide experience in export trade for quite a long time-period and my experience is that profit and losses by exchange rates have a tendency to be equal. That includes also the development of the EURO-USD parity of the last 3 or 4 years. For sure if you look at a short period of time and only one special currency it can be different.

When SMEs start export trade they have to consider an additional risk: fluctuating exchange rates. The reason why this matter seems to be more complicated to handle compared with other corporate risks (as damage by fire or storm) is the matter that there is also a chance of winning – but actual this fact makes the risk easier to handle. First of all the entrepreneur has to make a decision: Do I want to gain profit by exchange rates or do I want to make profit by my core business - and even if I want to do both I should consider these are two different matters. On one hand you have entrepreneurship on the other you have a kind of gambling. Profit as a consequence of competitiveness concerning the corporate core business is mainly made by the entrepreneur, profit or losses by exchane rates not, it is a different investment.

For me it was and is always clear that I want to gain profit by my core business, that meens to minimize the risk of fluctuating exchange rates concerning currencies of countries which belong to the main export markets.

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Covering the risk:

Nearly every Austrian bank offers a range of products also for SMEs to cover risks of fluctuating exchange rates. I am personally very satisfied about this special service as also in general. We have not as huge banks as coutries like Switzerland or Germany but the support of the Austrian banks concerning export trade even to SMEs is really excellent. My personell experiences refer to Raiffeisen, Volksbanken, Bank Austria, Bawag and Oberbank.

In principle it does not make sense the cover every risk, so you have to decide year by year which risks you will cover. Exchange rates are finally part of your corporate risk management and the decision could also be for one or some years to reduce export trade to special countries compensating that by reinforcing other foreign markets.

If part of the risk is covered there will still remain profit and losses gained by fluctuating exchange rates. It is important to separate profit from corporate core business precisely from profit by exchange rates. The same of course with losses. Profit by core business is for reinvestment, profit by exchange rates should be kept for losses which will come.

Expectation from Central Bank Policy:

For exporting enterprises it is and was always most important to have a stable home currency, that is what the central bank should take care about.

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