

Preparation for the Euro Introduction



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With the oncoming accession of Slovakia into the euro area, preparations for this event escalated on all levels. At the beginning of 2007, the National Euro Changeover Plan was updated. As early as during preparations and approval of the so called General Act secondary legal regulations started to be elaborated. All tasks resulting from the National Euro Changeover Plan and the NBS Internal Plan were performed on schedule or were being performed continuously. It results from surveys made at the end of 2007 that the majority of entities of the public and corporate sectors has already started their preparations for the euro introduction. A favourable economic development has supported successful fulfilment of the Maastricht Criteria. Estimates of development for the following years indicate that the Criteria were fulfilled in a sustainable manner, and Slovakia is ready to introduce the euro as of 1 January 2009.

9.1 The National Euro Changeover Plan and organizational preparations

In 2007 activities became markedly more intensive in all sectors with the aim to prepare citizens and the public and private sectors for the administrative, technical and organizational aspects of a smooth introduction of the euro as of 1 January 2009.

A significant step was the update of the National Euro Changeover Plan in the Slovak Republic, which led to its specification and extension by additionally identified tasks. In the interest of reaching better mutual understanding with the EU institutions before the readiness of the SR to enter the euro area was

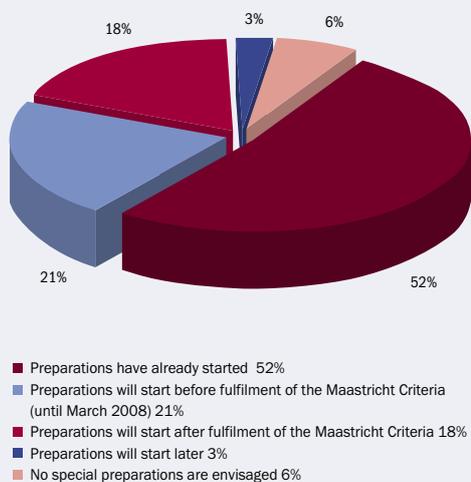
assessed, an action plan for the intensification of consultations with the EU institutions and with selected EU Member States in order to introduce the euro in the SR as of 1 January 2009 was prepared and approved. A Euro Committee was established, and the highest representatives of NBS and the MF SR were appointed its members. The Committee dealt mainly with tasks linked with the fulfilment of the Maastricht Criteria, related preparation of essential documents, and coordination of technical discussions with the European Commission representatives. For the needs of communication with the public in the event of serious problems, the Crisis Communication Staff was established.

Over the course of the year, several joint meetings of the working committees for the euro changeover were held. The Plenipotentiary of the Slovak Government for adopting euro in cooperation with the Minister of Finance prepared and summoned three meetings of the National Coordination Committee for the euro changeover. The Working Committee for Legislation coordinated and controlled preparation work on Slovak legislation regulating an organized, smooth and transparent introduction of the euro in Slovakia and the compliance with the approved schedule of legislative steps leading to the euro introduction in Slovakia. The key legislative act is Act No. 659/2007 Coll. on the introduction of the euro in the Slovak Republic and on amendments to certain acts, (the so called General Act), drafted by NBS and MF SR, which constitutes the basic legal framework for the euro introduction in Slovakia. In the second half of 2007, attention was focused on preparations of secondary legal regulations, i.e. regulations which, depending on their contents, will become effective either in 2008 (so as to allow necessary preparations for the euro

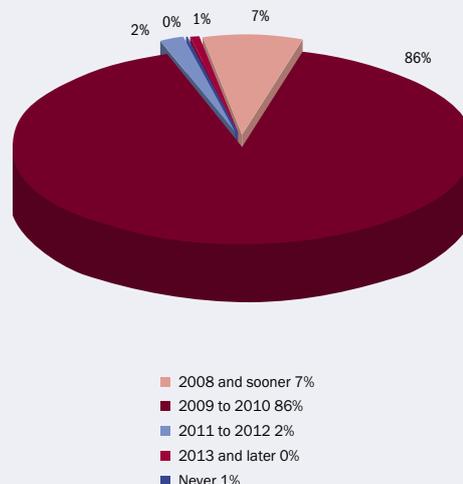
Table 36 **Time table for the euro adoption in the SR**

Fulfilment of the Maastricht Criteria	March 2008
ECB and EC Convergence Reports	May 2008
EC proposal to the Council of the EU for abrogation of the derogation	May 2008
Consultation with the European Parliament	June 2008
Council of the EU abrogates the derogation and sets the conversion rate	July 2008
Euro area entry – „€ Day“	1 January 2009

Source: NBS.

**Chart 51 Preparedness of entities for the euro introducing in the SR**

Source: *The Business Alliance of Slovakia, 2007.*

Chart 52 Expectations of Slovak citizens for the date of the euro changeover in Slovakia

Source: *Eurobarometer, 2007.*

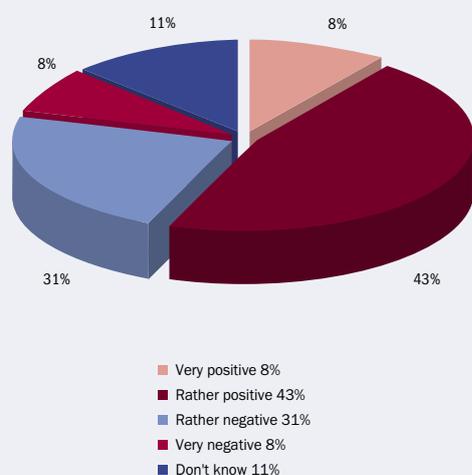
introduction to be performed), or, at the date of euro introduction at the latest. The most important were ministerial decrees which laid down details about procedures and methods of the dual display, special rules for the dual display and for introducing and rounding prices, unit prices and payments at the euro changeover, and of the display of prices, unit prices and payments exempted from the dual display obligation. Preparation of the decree on rules for reporting and conversion of monetary data in relation to the euro changeover for accounting purposes, taxes, fees and customs purposes was also important.

A report on the fulfilment of the National Euro Changeover Plan in the SR for 2007 stated that in the period under review the most considerable progress had mainly been achieved in the performance of tasks related to preparations of an information campaign, preparations for the euro cash frontloading, and preparations of general government bodies. The former two areas are within the responsibility of working committees under the remit of NBS.

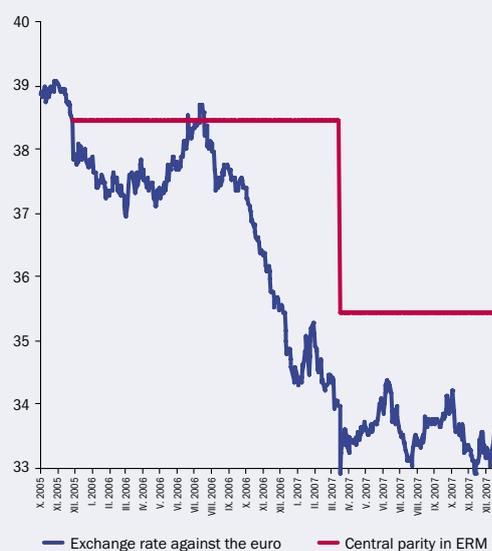
All tasks assigned to the Working Committee for Communication for 2007 were completed. In cooperation with the Government Plenipotentiary, the Communication Strategy on the Introduction of the Euro in the Slovak Republic was prepared and adopted. It summarizes the current knowledge and plans for communication activities on the euro introduction. Along with the Strategy the competitive bidding process to select a communication agency was successfully completed. The agency will perform the main campaign aimed at increasing public awareness of

the euro introduction process. A company for the preparation and operation of the national Internet website on the euro adoption, www.euromena.sk, was also selected. At the end of 2007, the website was officially launched. The public perceived very positively informal discussions entitled "Summer Fridays about the Euro", where preparations for the euro introduction were presented. At the initiative of the Working Committee for Communication, operators of a toll-free info line were trained, as well as lecturers for selected target groups, namely for small and medium-sized enterprises. In cooperation with the ECB, NBS prepared a partnership programme for institutions from both the private and the public sector. The partnership programme allows companies and institutions to use ECB publications, the Euro Campaign logo "Our currency", and to use source materials prepared by the ECB in their own publications. In cooperation with the Ministry of Education of the SR and the Plenipotentiary of the Slovak Government for adopting euro, preparatory work on the project "Euro to Schools" was completed. Specialized training of teachers on the issue of euro introduction and the production of special educational aids was launched.

In 2007, tasks of the Working Committee for Banks and Financial Sector were focused mainly on the area of connection to the European payment system Target2, preparations of the ATM and POS terminal conversion to the euro, changes of payment cards and the issue of electronic banking. Tasks in the area of cash circulation also belong to its competence, namely the frontloading and sub-frontloading with

Chart 53 Expectations of Slovak citizens for the effect of the euro changeover in Slovakia


Source: Eurobarometer, 2007.

Chart 54 The koruna's exchange rate following entry into ERM II


Source: NBS.

cash and the overall strategy of the euro introduction into circulation in the SR. These tasks are being performed continuously. The Committee discussed the tasks related to the settlement of financial market transactions, the issue of conversion and replacement of market indices, revaluation of securities, preparation of dual statements and exchange rate list adjustments after introducing the euro.

In 2007, in addition to tasks performed within the working committees, NBS completed several other tasks defined by the NBS Internal Plan for the euro introduction. A draft decree was elaborated, under which certain rules were laid down for the dual display and other rules for the conversion of certain prices, payments and other values in the areas of financial market and services provided to financial institutions in the areas of banking, capital market, and insurance and retirement pension saving. NBS monitored and controlled the preparation of banking and financial institutions for the euro introduction, and prepared an analysis of the effects of the euro changeover on the Slovak financial market. Even before the end of the year, preparations started for the frontloading with euro cash. NBS elaborated draft contracts with banks regulating conditions for the frontloading, and prepared a plan for financial backing and adaptation of facilities for placing and processing of euro cash in NBS. Preliminary discussions were held with selected business entities in relation to destruction of Slovak banknotes and coins. The introduction of the euro in Slovakia will affect the performance of monetary policy, administration of foreign reserves and reporting. NBS analysed these areas, prepared proposals for

the harmonization of related activities, statistical data and application software with the ECB. NBS prepared and held specialized seminars on the euro introduction, as well as touring exhibitions on Slovak sides of the euro coins in several regional towns. Training of bank and other employees in relation to the euro introduction continued.

Between May and July 2008, crucial discussions will be made and respective decisions pertaining to the euro introduction will be taken. Experiences of countries that have already introduced the euro imply that ECB and EC Convergence Reports will be prepared at the beginning of May 2008. Positive assessment of the fulfilment of the Maastricht Criteria will be the key step to abrogation of the derogation, setting of a conversion rate, and introduction of the euro as at the planned date, i.e. on 1 January 2009.

The euro adoption process implies several tasks, which will have to be ensured by general government bodies and financial and non-financial companies. The most important tasks involve the dual display of prices, conversion of prices and cash circulation. Among the most demanding tasks is the technical support, in particular the modification of software and hardware of information systems. It will also be necessary to convert accounting items; in many cases it will be required to convert and modify the registered capital. Companies and public institutions should adequately train and inform their partners, clients and employees. Surveys conducted at the end of 2007 indicate that the majority of entities had already started preparations for the euro adoption.

Table 37 **Fulfilment of the Maastricht Criteria in 2007**

Criterion	Figure for 2007	Reference value
Inflation (average HICP, in %)	1.9	2.8
Long-term interest rates (%)	4.5	6.4
Government debt (% HDP)	29.4	60.0
General government deficit (% of GDP)	2.2	3.0
Exchange rate stability	Participation in ERM II since November 2005	Participation in ERM II for more than 2 years without severe tensions

Sources: Eurostat, NBS, MF SR.

At that time, preparations were mainly at the early stage. Most steps were executed in companies from the banking sector, insurance industry and financial services, to which most tasks apply resulting from the euro adoption. About one third of addressed entities adopted a decision to start preparations. One fifth of companies appointed responsible persons and prepared an audit plan. Several companies had already passed an audit of activities related to the euro introduction and conducted legislation monitoring. Certain companies had prepared an action programme for the euro changeover and a marketing strategy.

An opinion poll on the euro changeover which the European Commission conducted in the new EU Member States in September 2007 confirmed rising confidence in the euro introduction as at 1 January 2009. More than 86% of Slovak citizens expect the Slovak Republic to introduce the euro in SR 2009-2010. The same survey shows that the majority of Slovak citizens expect the introduction of the euro in Slovakia to have a positive effect, compared to 39% who forecast a negative effect.

9.2 Economic policies and the Maastricht Criteria for euro adoption

In 2007, Slovakia experienced a record growth, based in particular on foreign demand, accompanied by a decrease in current account deficit and deceleration of the inflation. This favourable economic development improved conditions for meeting a key precondition for the euro introduction, which is the fulfilment of the Maastricht Criteria.

From the point of view of Národná banka Slovenska, the primary objective is to meet the Inflation Maastricht Criterion. The average inflation rate for 2007 was 1.9%, which is significantly lower than the reference value as at December 2007 (2.8%). For introducing the euro, fulfilment of the Inflation Maastricht Criterion in March 2008 will be most important.

Another criterion for which NBS is co-responsible is the exchange rate stability in ERM II. NBS is responsible mainly for preventing short-term fluctuations of the exchange rate, and, together with the Government, seeks to keep the medium-term development of the exchange rate close to the equilibrium level and prevent creation of imbalances that could affect exchange rate developments. In November 2007 the condition of two-year membership in ERM II was met. During 2007 the koruna stood on the appreciation side of the set fluctuation band $\pm 15\%$ around a central parity. NBS exercised the option and intervened in the interest of exchange rate stabilization, and, in total made three interventions in response to unreasonable volatility of the exchange rate in the period before and after the revaluation of the central parity on 16 March 2007. Despite the interventions, the exchange rate's stability was maintained in a natural way, and an attempt for exchange rate stabilization did not have to be sought at the expense of the stability of the rest of the economy. The new central parity of the koruna against the euro was set at 1 euro = 35.4424 SKK. The lower compulsory intervention rate was reduced to 30.1260 SKK/EUR and the upper compulsory intervention rate to 40.7588 SKK/EUR. The need for revaluation of the central rate resulted from significant structural changes in the Slovak Republic. With regard to a high differential in productivity growth in comparison with the euro area, the real equilibrium exchange rate strengthened substantially in the period from joining ERM II, and the central parity ceased to be in line with current state of the economy. At the end of 2007, the value of the koruna stood at the level of 5% above the central parity.

At the same time, administrative pressures to strengthen the exchange rate were not present, and the exchange rate was developing in accordance with the fundamentals. Appreciation of the nominal exchange rate resulted from a high differential in labour productivity and a low inflation differential in comparison with the euro area. The development of the exchange rate did not threaten the business sector; both exports and the profitability of companies were growing.



The fulfilment of the Maastricht criterion in the field of long-term interest rates is closely related to meeting the other criteria. Given the decline in inflation and the high credibility of economic policies, Slovak long-term interest rates are substantially lower than the reference value. If all the other Maastricht Criteria are met, the fulfilment of the interest rate criterion should not be at risk.

The general government deficit including the effect of introducing the pension pillar II declined in 2007 to 2.2% of GDP. The government debt in proportion to GDP was 29.4% of HDP. Thus, Slovakia met also the fiscal criterion.

The Slovak Government committed itself to continue in gradual reducing of the general government deficit in the following years. In 2011, the general govern-

ment budget should be balanced. A lower general government deficit will enable to ensure the long-term sustainability of public finance.

Reducing the deficit and meeting the fiscal criterion will help to curb demand and inflation pressures. In a period after the euro adoption a responsible and credible fiscal policy will also work as a stabilizing factor for the development of the exchange rate. From a current estimate of the development of inflation for the next years follows that the inflation criterion will be met not only in 2008, but also in 2009. Several factors work in support of the sustainability of the fulfilment of the inflation criterion: the core inflation has historically been relatively low, and the Slovak Government refuses to decrease indirect taxes. The regulated prices have not been artificially reduced and the prices of energies are at the level of an EU average or higher.