



PREPARATIONS FOR THE EURO INTRODUCTION IN THE SR



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At the beginning of 2008, the Slovak Republic met comfortably the Maastricht criteria, and fulfilled the key requirement for the euro introduction on 1 January 2009. On 7 May 2008, the European Commission concluded that Slovakia had achieved a high degree of sustainable economic convergence and was prepared to adopt the euro. The Commission submitted to the Council of the EU a proposal to abrogate the excessive deficit procedure for Slovakia and to accept Slovakia as a member country of the euro area. After the EU heads of state and governments had discussed this issue at their summit in June and after the European Parliament had given its opinion, the EU's Economic and Financial Affairs Council (ECOFIN) made on 8 July 2008 a final decision on euro adoption in Slovakia as from 1 January 2009.

9.1 ECONOMIC POLICIES AND THE MAASTRICHT CRITERIA FOR EURO ADOPTION

In 2008, the rising trend of productivity and potential of the Slovak economy continued, which was reflected in the strengthening of the equilibrium real exchange rate, and, therefore, the Slovak Republic made a request for another change of the central parity. The central rate was revalued from 35.4424 to SKK/EUR 30.1260 with effect from 29 May 2008. The Slovak koruna has been part of the Exchange Rate Mechanism (ERM II) for more than two years without any deviation

from the given fluctuation band. The exchange rate stability was maintained without severe tensions, and its stabilization did not have to be sought at the expense of the rest of the economy. Thus, Slovakia fulfilled the exchange rate stability condition. On 8 July 2008, the central parity set with effect from May 2008 was declared the official conversion rate.

Slovakia has been meeting the inflation criterion since August 2007. At the time of the assessment by the European Commission, the 12-month average HICP inflation in Slovakia reached 2.2 %. The reference value for inflation, based on inflation in the Netherlands, Malta and Denmark, was 3.2 %. Thus, the Slovak Republic comfortably met the inflation criterion, by one percentage point below the ceiling. As the European Commission noted in its report, Slovakia met the nominal inflation criterion in a sustainable manner, i.e. the country will be able to adhere to this criterion also after its entry into the euro area, under the single monetary policy of the European Central Bank (ECB).

The long-term interest rate stability criterion has been comfortably met for a long time. At the time of the official assessment, the 12-month average interest rate for long-term government bonds was 4.5 % in Slovakia, 2 percentage points below the reference value (6.5 %).

In 2007, the general government deficit and total public debt reached 2.2 % and 29.4 % of GDP,

Table 35 Time table for euro introduction in the SR

Fulfilment of Maastricht criteria	March 2008
Slovakia's request for assessment of the Maastricht criteria fulfilment	4 April 2008
ECB and EC convergence reports	7 May 2008
The European Commission proposal to the Council of the EU for abrogation of the derogation	7 May 2008
Consultation with the European Parliament	May–June 2008
Abrogation of the derogation and setting the conversion rate	8 July 2008
Entry into the euro area – “€-Day”	1 January 2009

Source: NBS.



Table 36 Fulfilment of the Maastricht criteria at the time of assessment by the EC (March 2008)

Criterion	Recorded value	Reference value
Inflation (average HICP; %)	2.2%	3.2%
Long-term interest rates (%)	4.5%	6.5%
Gross public debt (% of GDP)	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 two years without severe tensions

Source: EC.

respectively. The Government of the SR committed itself to continue in gradual reducing the general government deficit also in the following years. Therefore, the Commission concluded that the excessive deficit had been eliminated in a reliable and sustainable manner. After abrogating of the excessive deficit procedure, Slovakia fulfilled also the fiscal criterion.

In the period after the official assessment of the fulfilment of the Maastricht criteria, the 12-month average HICP inflation rate had been gradually increasing. At the same time, the reference value for this criterion had also increased, and, as a result, Slovakia continued to fulfil the inflation criterion also in December 2008. Under the influence of worsening global economic conditions and higher domestic inflation, the long-term interest rate in Slovakia increased at the end of 2008. The long-term interest rate stability criterion had still been comfortably met. When the global financial crisis affected the economic development of the region, the Slovak Republic, even prior its entry to the euro area, started to feel positive effects of the single currency on economic stability, and, unlike the currencies of the neighbouring countries, the market exchange rate of the Slovak koruna did not depreciate, due to the officially set conversion rate.

9.2 NATIONAL EURO CHANGEOVER PLAN AND ORGANIZATIONAL PREPARATIONS

The multi-year process of preparations for the introduction of the euro culminated in 2008. With the joint effort of all parties concerned, a sufficient level of preparedness of inhabitants, public institutions and private businesses was assured

Chart 47 Exchange rates of V4 countries in 2008 (index)



Source: ECB.

for a smooth adoption of the single European currency as of 1 January 2009.

In line with experiences gathered and facts learned during the ongoing preparations, two updates of the National Euro Changeover Plan were made. With the aim of smooth and clear frontloading of inhabitants, as well as small entrepreneurs and self-employed with euro cash, the conclusion to produce and distribute the so-called starter kits of euro coins was incorporated into the National Euro Changeover Plan. In September 2008, the third, and at same time the last update of the National Euro Changeover Plan in the Slovak Republic was approved. Its elaboration resulted mainly from the successful completion of all approval procedures, confirmation of 1



January 2009 as the date of entry of the SR into the euro area and the setting of official conversion rate. No new tasks or changes against the initially set principles and rules for the transition to the euro were included.

Several meetings of working committees and sessions of the National Coordination Committee for the Euro Changeover were held in the 2008. In addition, one meeting of the Euro Committee was held, however, the official activities of the committee were ceased in May, after the Maastricht convergence criteria had been met.

During 2008, no serious problems, delays or obstacles were recorded. The work continued in accordance with the approved timetable. Following a monitoring mission in Slovakia, experts from the European Commission came to similar conclusions.

The experience of the countries that have already introduced the euro showed that businesses could misuse the introduction of the euro for unreasonable price increases. The Statistical Office of the SR carried out ten-day price development surveys of selected sorts of goods. Since July 2008, the regular monitoring of consumer prices had been carried out also by the Association of Slovak Consumers. Based on the price data gained, six businesses were put on the so-called black list in December. The Slovak Trade Inspection focused on the supervision of observance of Act No. 659/2007 Coll. on the euro introduction in the Slovak Republic, with emphasis on the dual display of prices, fixing and rounding of prices, unit prices and payments during the euro changeover period.

Till the end of 2008 the preparations for the introduction of the single currency required to draw up and approve more than 200 acts, 26 regulations of the government and several decrees, edicts, provisions of NBS and other central governmental bodies. The most demanding and the most extensive preparations were in the field of conversion of information systems and in the field of cash and scriptural circulation. Sufficiently in advance of the euro introduction, the systems of scriptural payment had been successfully tested.

NBS managed the operation of the Working Committee for Banks and Financial Sector (more

in the chapter 6.4) and the Working Committee for Communication. The most important task in the field of cash payment system was the frontloading with euro cash. Within the new member countries of the EU, which had adopted the euro, the SR was the first, which used the mint on its own territory. The euro coins with the Slovak side were minted in Mincovňa Kremnica, a.s. The euro banknotes were borrowed from the Oesterreichische Nationalbank by NBS. The frontloading of euro coins started on 6 September, and was successfully completed on 29 December 2008. The total value of euro coins, which were distributed to commercial banks within the framework of the frontloading, reached EUR 98 million, which represented 283 million pieces of coins. Frontloading of banknotes started on 7 October 2008, and was successfully completed on December 2008. During this period of time banks received 51 million pieces of euro banknotes in a value of EUR 950.9 million. Sub-frontloading started on 28 October 2008 and was successfully completed on 31 December 2008. In total, almost 14 thousand clients were sub-frontloaded, and obtained 1/4 of the total volume of banknotes and 2/3 of the total volume of coins.

Shortly after official fulfilling the requirements for the euro adoption, NBS started to withdraw the original koruna cash. In the second half of 2008, NBS started to destruct the excessive stocks of Slovak banknotes and coins. The Working Committee for Banks and Financial Sector was in charge with the fulfilment of further very demanding tasks in the field of scriptural payment systems. NBS coordinated primarily the connection of the banking sector, including NBS, to the TARGET2 payment system.

Also the second committee within the remit of NBS fulfilled all tasks scheduled for 2008. The Working Committee for Communication coordinated primarily the comprehensive information campaign. The campaign's objective was to provide Slovak public with practical information about all necessary facts prior to the euro introduction. In addition to general public, the needs of broad spectrum of sensitive target groups were taken into account. The most important element was the media campaign, which started in March 2008 – symbolical 300 days before the euro introduction. Till the end of the year, seven



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Chart 48 Public awareness of the euro (%)

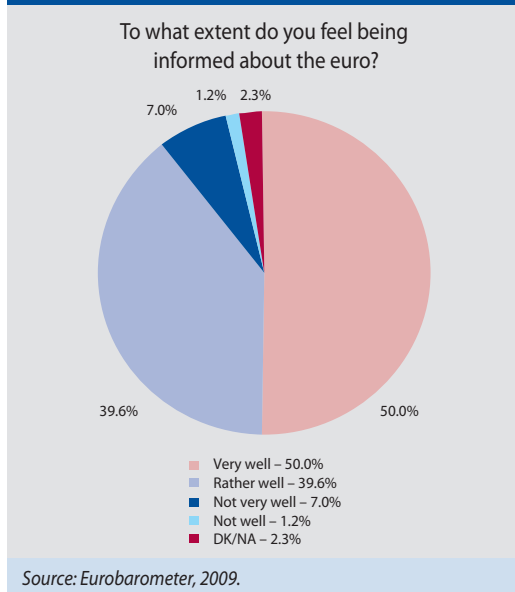
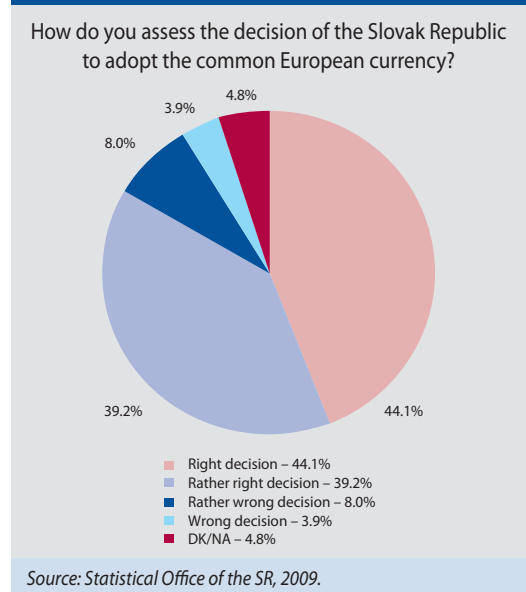


Chart 49 Opinion of citizens on the introduction of the euro in the SR (%)



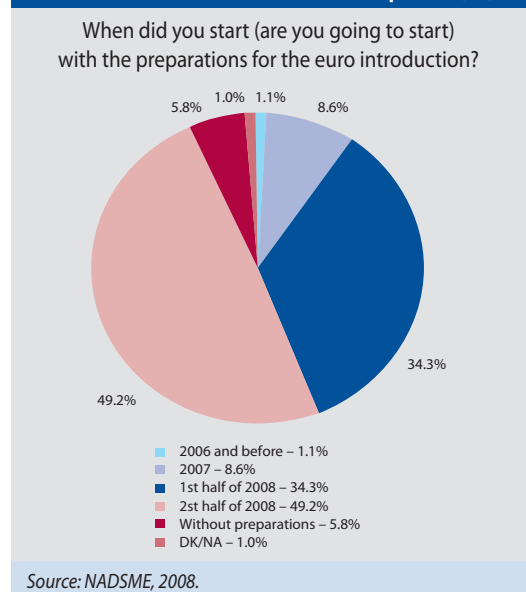
of total nine waves of media campaign had been carried out (the last two waves were in January and February 2009). Information about the euro was provided to media through a number of press releases and press conferences. NBS and the Ministry of Finance distributed more than 20 million pieces of publications within the information campaign. The most important were two direct deliveries of information materials to all households. The campaign included also several exhibitions, competitions, information and entertaining events. NBS took part in organization of conference "Slovakia euro changeover conference", organized the Open Day focused on the euro, prepared travelling exhibition "Slovak euro coins" and the exhibition "From the Koruna to the Euro" in Brussels.

The effectiveness of the campaign was measured through public opinion surveys, which were carried out by the Statistical Office of the SR. In January 2009, short time after euro introduction, 93% of inhabitants of Slovakia were satisfied with the information about the euro, which they had received. More than 90% of citizens were of the opinion, that particular pieces of information were clear and useful. The high quality of the information campaign was confirmed by results of the European Commission's Eurobarometer surveys. The Eurobarometer surveys showed that Národná banka Slovenska was the most

credible information source about the euro for inhabitants of Slovakia. At the same time public opinion surveys showed that citizens of the SR considered the decision to adopt the common currency to be right.

Along with the tasks performed by working committees, NBS completed a number of other tasks in 2008, specified by the Internal Euro

Chart 50 Commencement of preparations of small and medium-sized enterprises (%)





Changeover Plan of NBS. In cooperation with the Slovak Banking Association and members of the Working Committee for Communication NBS prepared a plan for crisis communication. NBS monitored and supervised the level of preparedness of banks and financial institutions. NBS had to harmonize a lot of activities, statistical data and application software with the ECB. In regard to the introduction of the euro in Slovakia it was necessary to make preparations for the conduct of single monetary policy, a change in the foreign reserves management, as well as in reporting. NBS prepared and carried out specialized seminars on the euro introduction and proceeded with training of banking and other staff in regard to the euro introduction.

Within the process of the euro introduction, NBS had played a crucial role and contributed to its smooth and successful course since its very beginning. The greater part of public institutions and business entities had prepared for the introduction of the euro just during the year 2008. The surveys showed, that several, especially large enterprises had commenced with preparations already in 2007, or even before. Small and medium-sized enterprises postponed preparations to a later time, and approximately one third of them commenced with preparations for the euro in the first half of 2008. Almost half of small and medium-sized enterprises commenced with preparations in the last half of the year prior to the euro introduction.