

STAGES OF INTRODUCING THE EURO IN THE SR

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In July 2003 the Government of the SR and the NBS adopted the joint document "Strategy for Introducing the Euro in the SR". The content and scheduling of the process for adopting the euro is an essential precondition for specifying a definite Strategy and elaborating it into further, more detailed, procedures, which will then lead to the introduction of the euro in the SR.

Continuation from issue 5/2004

3rd Stage:

Period from the decision of the Ecofin Council on abrogation of the derogation for adopting the euro

This, by its nature a transitional period, should in the optimal case last very briefly (perhaps six months), in connection to the preceding stage until the end of the calendar year (2007). It is necessary to realise that in this period the koruna will continue to function in the framework of ERM II and that only at its end, or the date of accession to the euro area, the NBS will cease to be an independent monetary authority. It will be a period in which it will be able to effect (if it has not already been achieved) the concluding phase of the convergence of interest rates and the exchange rate to the level of the declared conversion parity. The optimal scenario would be if the demands for monetary and exchange rate policy for bringing convergence into line were as small as possible. From the aspect of a potential (although improbable) speculative attack on the still functioning national currency it is desirable that this period be as short as possible.

The main terms of reference of this period will be the need to manage the concluding part of the technical and organisational preparations for accession to the euro area and for introducing the euro as legal tender into the non-cash system of payments and cash circulation in the SR. The shortness of the period from the decision on acceptance as a member of the euro area through to the introduction of the new currency requires that the preparation of technical and organisational conditions for adopting the euro is realised with sufficient time in advance.

The apex of preparations and their accomplish-

ment into more concrete forms can be realised only after the irrevocable SKK/EUR conversion rate is known. Only then will it be possible to proceed towards obligatory dual pricing, the gradual conversion of the cash-free system of payments in the banking (or financial), business and public sectors over to the euro and towards the technical preparation for introducing the euro into cash circulation as the sole legal tender¹². With regard to the organisational and technical demands of the stated activities it is therefore necessary to begin their preparation sufficiently in advance (already in the 2nd or 1st stage)¹³. The prolongation of this transitional period in consequence of technical or organisational problems could cause uncertainty, which would over the long term raise the costs of firms and institutions as well as exchange rate risk.

Summary: Depending on the timing of the Ecofin Council decision, this period could last around six months, i.e. until the end of 2007. As at this date the country could, in the optimal case, be prepared for introducing the euro in the full extent. In order, however, for it to be possible to perform the whole operation according to plan, it is necessary to prepare it thoroughly in advance. Preparations must for

¹² It is necessary to differentiate between the voluntary acceptance of the euro, which we already encounter at present for example in retail (hypermarkets), some public companies (the railways) or in the property market, and the extent of which will, in the natural manner of the market, constantly expand, and the euro as legal tender when the koruna will become a denomination of the euro and will gradually be withdrawn from circulation.

¹³ The Information Technology Division of the NBS has repeatedly drawn attention to this aspect, where in its opinion the preparations in this direction must begin already in the 1st stage. Evaluations of the process of introducing the euro in the countries of the present eurozone members confirm this opinion.

this reason begin already during the course of the 2nd or 1st stage.

4th and 5th stage:¹⁴

Period from accession to the euro area through to full and exclusive introduction of the euro into circulation and withdrawal of the koruna from circulation

From the beginning of the 4th stage the koruna will be merely a denomination of the euro (with a fixed set conversion exchange rate parity). This period is necessary for the complete introduction of the euro into non-cash and cash circulation in the SR, during which 2 currencies will function in parallel in the economy: the euro and the Slovak koruna.

We enter the 4th stage as a full member of Economic and Monetary Union, governed by the single monetary policy of the ECB; the execution of monetary policy will be performed in euro, financial markets will operate in euro, public debt will be converted into euro.

The length of the whole period and the fact whether its terms of reference will from the material side be divided into two steps with the separate introduction of the euro into scriptural transactions and cash circulation¹⁵, or whether both processes will run in parallel (the introduction of the euro into scriptural transactions as well as cash circulation), will be determined in a defining way by the state of technical and organisational preparations achieved in the framework of the 1st – 3rd stage.

Here it is necessary to emphasise the importance of the public sector being prepared (laws, decrees, changes in the information systems of tax authorities, of the social insurance company etc. Similarly important is also the preparation of the private sector, in particular banks, for the transition over to the new currency so that it will subsequently be immediately technically able to accept euro and the koruna will be able to gradually lapse. This means that this period has limits, in particular in the capability of the public and private sectors to prepare themselves for the new currency (in non-cash and cash form).

¹⁴ These two stages correspond to a two-step introduction of the euro in the current eurozone: (i) 1999 – 2001 the euro in financial markets and in the non-cash system of payments; (ii) from 1. 1. 2002 the introduction of cash euro (banknotes and coins).

This period is also necessary for removing the Slovak koruna from circulation. We predict that it should not last longer than 6 months. Its shortening¹⁶ is welcome from the aspect of reducing costs. The length of this period however will depend also on whether in the preceding stages it will be possible to complete the whole preparation for the complete adoption of the euro by all economic entities. In the optimal case, if it were possible to realise the introduction of non-cash and cash euro as a parallel process, the koruna could be withdrawn from circulation by the end of February 2008. As at this date koruna banknotes and coins would cease to be legal tender and cash circulation would be fully performed in euro.

The given scenario of the parallel removal of the cash koruna and the introduction of the cash euro into circulation (the gradual replacement of the koruna by the euro with a certain set time limit on the koruna's validity) represents the most favourable option. Besides timely technical and organisational preparation, its fulfilment also requires intensive promotion and information campaign for the public – businesses and inhabitants.

Summary: With the date of the SR's accession to the euro area the Slovak koruna will become a denomination of the euro. In the ideal case the introduction of the euro into the non-cash system of payments could run in parallel with the introduction of cash euro banknotes and euro coins, and the euro could become the sole legal tender and currency in the first two months of 2008.

In the interest of co-ordinating the process of adopting the euro at a nationwide level, organisational structures will be created in which will participate representatives of the SR Government, the NBS, entrepreneurs and trade unions, financial institutions, the Tax Directorate, the Social Insurance Company and other institutions so that the necessary co-ordination is achieved in the preparation and costs and risks are reduced.

Co-operation throughout the whole process is expected with European institutions (European Commission, ECB), as well as with a wide range of experts from the stated spectrum of institutions and research workplaces in Slovakia and abroad.

¹⁵ While in the 4th stage the introduction of the euro into cash circulation shall be voluntary (as will be the removal of the koruna from circulation), in the 5th stage its introduction by the set deadline shall become compulsory.

¹⁶ From the experience of eurozone countries to less than two months.



Model time framework of the process of adopting the euro in the SR

	1 st Stage	2 nd Stage	3 rd Stage	4 th and 5 th Stage
Content	Entry into the EU and adoption of the Government decision on accession to ERM II.	Entry and abidance in ERM II and evaluation of fulfilment of the conditions for adoption of the SR as a full member of EMU from the side of the European Commission and the ECB.	Decision of the Ecofin Council on the fulfilment of conditions for adoption of the SR as a full member of EMU.	Accession to euro area and introduction of cash euro into circulation.
Possible time plan (optimistic variant)	May 2004 – 31.12.2004	1.1.2005 – June 2007	July 2007 – 31.12.2007	From 1.1.2008
Basic tasks	Accession to the Central Bank Agreement and initiation of the Exchange Rate Procedure in the Committee for ERM II Completion of reforms so that there are created the conditions for economic, financial and monetary stability following entry to ERM II.	Stabilisation of the exchange rate. Preparation of laws, directives, modification of IT systems for the needs of the euro, adjustment of business trading strategies for managing integration and growing competition.		Introduction of the euro into the non-cash system of payments and accountancy. Introduction of the cash euro and withdrawal of the koruna from circulation. Effort to minimise costs connected with these processes.
Macro-economic issues	Continuing consolidation of the budget and reduction of the rate of inflation mainly due to the significant reduction of the scope of administrative measures.	In the framework of the Exchange Rate Procedures is the selected exchange rate parity of the koruna against the euro sufficiently credible? What policy mix to choose during the functioning in ERM II? How to orient monetary policy instruments of the NBS?		Delegation of NBS monetary policy to the ECB. How will the setting of macro-economic policies be changed in order to maintain an orientation on stability and flexibility?
Preparation in the public sector	Information campaign for the public and a detailed plan of the transition to the cash euro, creation of a working commission with representation of relevant parties. Commencement of technical preparations.	Realisation of the necessary changes. Continuation of the preparation of institutional and technical conditions for introducing the euro. Preparation of the dual-pricing of goods, services and labour.	Finalisation of the formation of the institutional and technical conditions for introducing the euro. Finalisation of the preparation of the dual-pricing of goods, services and labour.	Dual-pricing of goods, services and labour.
Preparations in the private sector	Commencement of preparations on the basis of a detailed plan and coordination by the working commission.	Realisation of the necessary changes. Preparation of the technical conditions for introducing the euro. Preparation of dual-pricing.	Finalisation of preparations.	Dual-pricing.
Possible risks	Insufficient dynamic of fiscal consolidation.	Possible pressure from the side of the EU for abidance in ERM II longer than 2 years. Risks of non-compliance with the time schedule for adopting the euro ensuing from the operation of the political cycle – 2006 is an electoral year.	Institutional and technical preparation for introduction of the euro not quite complete. Deferral of the date for adopting the euro and a loss of credibility abroad ensuing from this and risks for financial and economic stability.	