**COUNCIL OF THE EUROPEAN UNION**

**Brussels, 23 April 2009**

**9033/09**

**ECOFIN 304**
**UEM 135**

**COVER NOTE**

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|---|---|
| from: | Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director |
| date of receipt: | 21 April 2009 |
| to: | Mr Javier SOLANA, Secretary-General/High Representative |
| Subject: | Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Central Bank<br>- The introduction of the euro in Slovakia |

Delegations will find attached Commission document COM(2009) 178 final.

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Encl.: COM(2009) 178 final

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.4.2009
COM(2009) 178 final

# COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN CENTRAL BANK

## The introduction of the euro in Slovakia

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN CENTRAL BANK**

**The introduction of the euro in Slovakia**

## 1. INTRODUCTION

Following the Council Decision of 8 July 2008 that Slovakia fulfils the necessary conditions for the adoption of the euro, the euro-area enlarged to 16 members on 1 January 2009, the day when the tenth anniversary of the euro was celebrated.

Slovakia opted for a "Big Bang" changeover scenario, i.e. without a transitional period. As in Slovenia, the period of dual circulation, during which payments were accepted both in euro and Slovak koruna, lasted for two weeks. The successful changeover confirmed that, if meticulously prepared, a short dual circulation period can be sufficient, even for a country with a high amount of cash in circulation. A large majority of Slovak citizens (91%) perceived the changeover as smooth and efficient.

This Communication covers the most important aspects of the changeover process, in particular the cash changeover (see Section 2), the measures taken to fight citizens' fears of price increases (see Section 3), the price developments in the changeover period (see Section 4), the information campaign and the citizens' opinion on the running of the changeover (see Section 5). Where relevant, the conclusions are drawn which may be of value for future changeovers.

## 2. THE CASH CHANGEOVER

The cash changeover constitutes probably the most visible element of the currency switchover since virtually all financial institutions, businesses and citizens are involved. The efficient running of this operation depends on a proper supply of euro cash to all parties involved and on banks and businesses being well prepared for a large extra workload.

### 2.1. Preparations for the cash changeover

To replace the Slovak koruna in circulation and the cash stocks of the National Bank of Slovakia (NBS), some 188 million **euro banknotes** were borrowed from the Austrian National Bank while 500 million **euro coins** were minted by the Slovak Mint of Kremnica. Among the new Member States introducing the euro, Slovakia was the first one to mint the euro coins with its own production facilities.

The NBS started the **frontloading** of the 16 commercial banks working with cash on 6 September 2008 for euro coins and a month later for euro banknotes. The state police systematic escorts guaranteed high security for all euro cash transports.

**The sub-frontloading** of euro cash to businesses was initiated at the end of October 2008. Some 14 000 businesses signed a sub-frontloading contract with a bank and were supplied with almost 24% of the value of frontloaded banknotes and 68% of the value of frontloaded coins. In total, 27.8% of the value of frontloaded cash was distributed to businesses before €-day. In Slovenia, the sub-frontloading represented only 2.4% of the value of frontloaded cash while in both Cyprus and Malta it was only around 1%.

Slovak banks did not use the new simplified ECB rules for sub-frontloading adopted in June 2008[1]. According to the NBS and the commercial banks, the new Guidelines came too late to be used in Slovakia since a large number of sub-frontloading contracts were already concluded by May 2008. Changing the rules during the process could have put enterprises on an unequal footing and it would have required substantial changes in the cash distribution plans.

All 1 320 000 pre-packed **coin kits (mini-kits)**, worth 500 SKK (approximately €16.60), ordered by the NBS were sold to businesses and the general public between 1 and 31 December 2008. Based on the previous experience, the Commission recommended preparing approximately one mini-kit per household. Since Slovakia had some 2 million households and, additionally, did not prepare special euro coin kits for retailers, the Commission pointed out in the *7th and 8th 'Report on the practical preparations for the future enlargement of the euro area'*, that the quantity of mini-kits ordered by the NBS might not be sufficient. Since many commercial bank branches and post offices ran out of mini-kits in the first days (81% were sold up until 5 December), the NBS recommended limiting the sales to a maximum of 10 mini-kits per person. A number of businesses bought pre-packed coin kits to obtain euro cash for giving change while some companies and administrative bodies used them as Christmas presents or end-of-the-year bonuses. Since they did not signal their needs to the NBS in advance, many distributors ran quickly out of their mini-kits stocks. According to a Commission survey, 25% of the citizens who did not buy a mini-kit explain it by the absence of available ones[2].

With a view to spreading the exchanges of hoarded cash over a longer period of time, some commercial banks provided for exchanges of Slovak koruna cash against euro at the official conversion rate free of charge in the last weeks of 2008. Many banks also offered special products for attracting new customers or pushing their current clients to deposit the cash kept at home on a bank account.

According to a Commission survey made three days before the changeover[3], a large proportion of the Slovak citizens already possessed some euro cash: 60% had euro coins - mainly from the starter kits (53%) and from a previous trip abroad (42%) - while 49% had euro banknotes – mainly from a trip abroad (56%) and from an exchange in a bank in Slovakia (39%).

**The frontloading and sub-frontloading operations were well organised. The value of cash supplied to businesses before the changeover was significantly higher than during**

[1] ECB Guideline (ECB/2008/4) of 19 June 2008 amending Guideline ECB/2006/9 on certain preparations for the euro cash changeover and on frontloading and sub-frontloading of euro banknotes and coins outside the euro area.

[2] Flash Eurobarometer 259, January 2009.

[3] Flash Eurobarometer 255, January 2009.

**the three last changeovers.**

**High demand for euro coins mini-kits in Slovakia confirmed that citizens are attracted by the first euro coins with the national side of their country, even when they already hold euro coins issued by other countries. It is important to prepare sufficient numbers of mini-kits for all citizens so that they can get familiar with their new currency ahead of the changeover. Since businesses need the euro coins for giving the change as from the changeover day, special retailer starter kits should systematically be foreseen to meet their needs. The demand of businesses and various institutions that may use coins kits as presents should be also taken into account when planning the volumes of production.**

**In order to facilitate the access of small businesses to euro cash, the new simplified ECB guideline for sub-frontloading should henceforward be used.**

## 2.2. The period of dual circulation

During the 16 days of the dual circulation period (1-16 January), the NBS and commercial banks were open for cash exchanges virtually every day (with the exception of Sunday 11 January). The number of clients coming to the banks was rather limited until Sunday 4 January, but the situation changed dramatically on 5 January when many people returned from holidays: citizens made almost 198 000 exchanges or cash withdrawals over the bank counter and exchanged almost €325 million, which is a hundred times more than on 5 January 2008. The second highest number (168 000) and value (€ 261 million) of the exchanges of the dual circulation period was registered on 7 January.

According to all available information, the banks did not report major problems. The IT systems of all banks were successfully converted by 3 January and a complete range of banking services was available since 5 January. Due to meticulous preparations, banks coped successfully with the extra large workload and waiting times remained generally reasonable. According to a Commission survey, only a minor proportion of the persons who went to a bank complained about a lengthening of the waiting lines. This problem was most frequently mentioned by the interviewees on 5 January, which is natural, since it was the busiest banking day of the whole dual circulation period. Between 1-16 January, citizens made 1 418 000 exchanges and withdrawals over the bank counter, which is four times as many as in the first 16 days of the previous year and exchanged/withdrew some € 2.207 billion which is 2.4 times as many as in 1-16 January 2008.

Compared to the other countries where the euro had recently been introduced, Slovaks had similar experiences to the Cypriots: 8% in both countries experienced some problems when doing cash exchange or withdrawing the new currency from banks. The Maltese had more difficulties (13% - mainly long waiting lines), while the Slovenes had the smoothest experience (3%). The self-employed had more problems in the banks than respondents from the other occupational groups.[4]

All the approximately 2200 **ATMs** in Slovakia dispensed only euro banknotes (mainly €10 and €20) and the 32 000 point of sales terminals worked in euro shortly after midnight on 1 January. The ATMs were seriously challenged on 5 January when people withdrew 2.5 times more cash in value (€ 41 million) than on 5 January 2008.

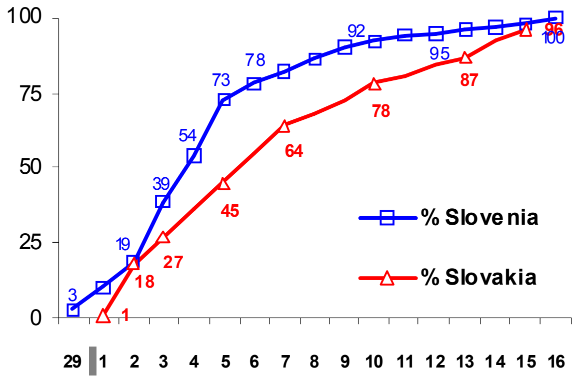
[4] Flash Eurobarometer 259, January 2009.

The use of the euro for payments in the first days progressed more slowly than in previous changeovers. In Slovakia, 45% of shoppers paid in euro on 5 January while it was 78% in Slovenia on the same day (see Graph 1). In Cyprus and in Malta where citizens could pay with their legacy currencies until the end of January, the share of payments in euro breached 70% on 4 January. On 7 January, when most Slovaks came back from holidays, the speed of the changeover caught up on the other new Member States which have introduced the euro.

**Graph 1**

**Share of the euro in the cash payments in shops**

*(% among shoppers)*




The slower beginning of the switchover to the euro in Slovakia was probably caused by the combination of long winter holidays (1 and 6 January were public holidays) together with the abnormally large number of retailers giving the change in Slovak korunas on 1 and 2 January (respectively 62% and 16%). As of 3 January, the retail sector followed the calls from the Slovak authorities and the Commission urging them to give the change exclusively in euro: the proportion of cash transactions with change given in Slovak koruna fell to 3% on 5 January and was close to zero on 7 January.

The retail sector coped well with the increased workload. Banks and authorities encouraged the citizens to use the 5.2 million cards in their possession for payments in order to alleviate the burden put on the retail sector. Those calls were not really followed, with in average less than 2.5% of the Slovaks declaring having paid with a card during the dual circulation period[5].

In shops, there were limited queues observed in the first days of January. Most retailers have not reported problems with cash supplies or storage of the koruna cash withdrawn from circulation. Some shops located in rural areas experienced problems with pensioners trying to spend the high denomination euro banknotes received for their pension payments via the post offices. Following those incidents, the Slovak authorities and the Commission recalled the importance of distributing pensions and salaries in low denomination euro banknotes[6].

The Commission surveys, asking respondents to inspect their wallets and purses confirmed the somewhat slower speed of the transition than observed in the previous changeovers. The results depicted in Graph 2 show that 5 days after the changeover some 56% of Slovaks

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5 Flash Eurobarometer 255, January 2009.

6 The shops in rural areas have more difficult access to banks so they can quickly run out of cash for giving change.

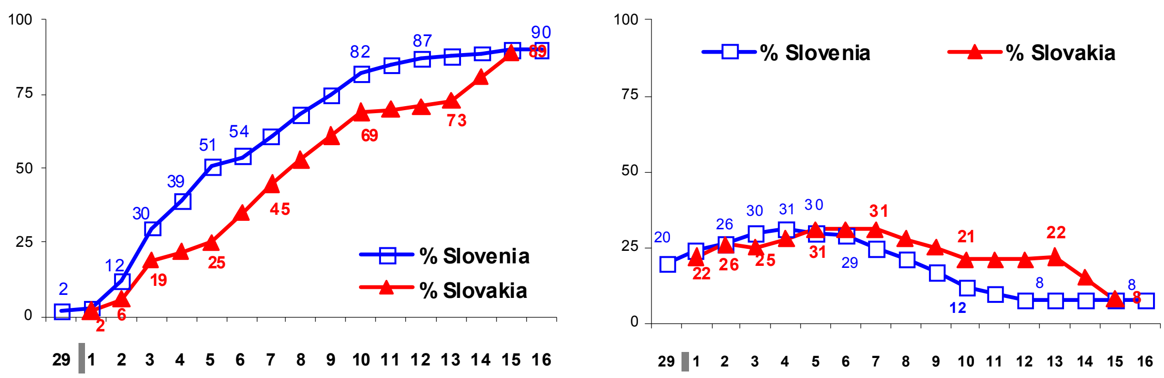
possessed only or mostly euro banknotes while some 63% of citizens had only or mostly euro coins. In Slovenia, 81% of citizens had only or mostly euro banknotes and as much as 88% had only or mostly euro coins on 5 January. The changeover in Slovakia speeded up as from 7 January. One day before the end of the dual circulation period, 97% of Slovaks possessed only or mostly euro banknotes while 98% had only or mostly euro coins.

**Graph 2**

**Citizens with only or mostly euro banknotes in their wallets**

*(% among the 15+ population)*

Citizens with only euro banknotes | Citizens with mostly euro banknotes




A majority of Slovaks (64%) surveyed in the second half of January said it was very easy or rather easy to distinguish and manipulate the euro coins. A bit more Slovenes (69%) and Maltese (75%) and considerably more Cypriots (81%) felt the same after the end of the dual circulation period. Like in the other countries, Slovaks got quicker familiar with euro banknotes: 81% of Slovaks said it was easy or very easy to handle them compared to 88% of Maltese, 91% of Slovenes and 95% of Cypriots[7]. The difficulties in handling the new currency were more frequently reported by older respondents.

## 2.3. Recovery of legacy currency

A significant proportion of Slovak koruna cash in circulation was recovered before the changeover. Almost a half of the value of Slovak koruna cash in circulation in mid-September 2008 (SKK 140 billion) was recovered before 31 December 2008 while SKK 77 billion remained in circulation. The first nine days of January 2009 saw a recovery of some 30 billion Slovak korunas and additional SKK 16 billion were retrieved before the end of the dual circulation period. At the end of January 2009, there were some 16 billion SKK in circulation (20% of the value of Slovak koruna cash which was in circulation at end of 2008). Almost 94% of the value of SKK cash which remained in circulation was denominated in banknotes and only 6% in coins.

In the first months of 2009, significant quantities of sub-frontloaded euro coins were returned to the banks: some retailers in Slovakia estimated wrongly their needs and sub-frontloaded excessively. Following complaints from retailers on excessive banking charges for cash

7 Flash Eurobarometer 259, January 2009.

handling, the Slovak Parliament decided that the commercial banks have to accept euro cash for free if deposited on a bank account from 1 March until 31 August 2009 (the estimated time needed for retrieving the excessive euro cash from circulation).

Slovak koruna banknotes can be exchanged free of charge in all commercial banks until the end of 2009, while the National Bank of Slovakia will continue to exchange them for free indefinitely. Slovak koruna coins can be exchanged in commercial banks until 30 June 2009 and in the NBS until the end of 2013.

**The changeover in Slovakia was well prepared and smooth. Slovaks successfully managed to avoid many problems which occurred in the other countries introducing the euro (e.g. long waiting line in banks) by learning from their experience. Although the cash changeover started a bit more slowly than in the other countries which used a big-bang changeover scenario, the results attained are overall very positive.**

**In order to speed up the changeover and thus reduce the burden put on retailers who have to handle two currencies simultaneously, the change should be given exclusively in euro as of 1 January. It could be considered for future changeovers to introduce a legal prohibition on the use of the legacy currency for giving change (with an exception for cases where it is materially impossible to use the euro). To avoid cash shortages in shops, the salaries and pensions-when paid in cash- should be distributed primarily in small denomination banknotes.**

**The retailers should plan carefully their euro cash needs for the changeover period and the banks should consider adapting their fee policy to the exceptional circumstances due to the changeover.**

## 3. PREVENTING ABUSIVE PRACTICES AND ERRONEOUS PERCEPTION OF THE EVOLUTION OF PRICES BY THE CITIZENS

The Slovak authorities have adopted a set of measures ranging from voluntary schemes to thorough price monitoring with a view to contributing to price stability and enhancing consumer confidence in the changeover period.

The logo of the **'Ethical Code'** project which binds its adherents to respect the rules of the changeover and not to abuse it for their own profit could be found at some 20 000 places (shops, service providers' outlets, local and regional administrative bodies). Citizens could complain about incorrect behaviour of the Code's signatories in the Office of the Government Plenipotentiary for the euro, which investigated the complaints. Until mid-February, the Plenipotentiary received only four complaints: all of them proved to be unjustified. The signatories breaching the Code could lose the sticker and be displayed on the 'Black list' of the Association of Slovak Consumers.

The obligatory **dual display of prices** in Slovak koruna and euro started on 24 August 2008 and will last until 1 January 2010. Its implementation is carefully monitored by the **Slovak Trade Inspection** (STI). According to a Commission survey, nine out of ten Slovaks find the dual display of prices to be useful. A majority of respondents said that the dual prices were always correctly displayed (53%) and another 31% felt that they were displayed correctly most of the times. Compared to the other countries that have recently adopted the euro, the Slovak respondents were among the most satisfied with the dual display[8].

Until the end of January 2009, the STI made more than 25 000 controls. The results of the controls improved significantly over time. The problems (e.g. missing dual display of prices or incorrect calculation/rounding of a price in euro, change given in SKK without an explicit consent of a customer during the period of dual circulation) were identified more frequently in the shops or service providers' outlets with 5 or less employees. If, at the second round control, the STI identifies that there was no correction, the next step is to issue a warning and, eventually, to open an infringement procedure. In January and February 2009, the STI opened 14 infringement procedures and imposed fines for 3 cases. Serious breaches of the changeover rules can theoretically be fined up to € 60 000.

Apart from controls on its own initiative, the STI also made **'targeted' controls following complaints from citizens** on an incorrect application of the rules of dual display or unusual increase of prices. All complaints were carefully examined: the price changes were compared with long term trends, prices of the same product in other shops and considered within the broader context (e.g. applicable prices of inputs, developments on world markets). In January and February 2009, the STI received 607 complaints. Out of the 420 complaints concerning price increases, only one proved to be justified.

Following the suggestions of the Commission, the STI regularly **controlled prices in sectors where problems were identified during the previous changeovers** (e.g. restaurants, hairdressers, cafes and car parks). It examines in detail the prices of selected car parks, driving schools and hairdressers since important price increases were identified in these sectors since the beginning of the compulsory dual display of prices period.

The controls of the STI are complemented by a price monitoring scheme by the **Association of Slovak Consumers**. The Association published a 'Black list' with retailers who increased their prices in the changeover period and could not provide a relevant explanation of the price change. Until mid-February, 12 businesses have been black listed: all of them are under scrutiny of the Trade Inspection.

The developments of prices in all sectors of the economy are regularly examined by a special body created by the government- the **Price Council**. If, after a detailed examination, the Council reaches a conclusion that there was a 'speculative' increase of prices in some sector, it can propose to the government to regulate the price of a particular good or service.

Citizens are regularly informed about the results of the controls through media and are encouraged to contact the Trade Inspection or other consumer protection bodies if they observe irregularities.

According to the results of the Commission survey, some 56% of Slovaks (compared to 76% of Cypriots and Slovenes and 47% of Maltese) had the impression that the price conversion was very often, often or at least sometimes unfair.

**Slovakia has implemented a comprehensive set of measures to prevent misperceptions of**

[8] Flash Eurobarometer 259, January 2009.

**the evolution of prices and price abuses, in line with the recommendations of the Commission[9]. The authorities should make sure that all complaints from the citizens are dully investigated and pay special attention to the price developments at the end of the dual display of prices period.**

## 4. PRICE TRENDS AND PRICE PERCEPTIONS IN THE CHANGEOVER PERIOD

### 4.1. Price trends

In 2008, price developments in Slovakia were strongly affected by both internal and external factors. Annual HICP inflation averaged 3.9% in 2008 compared to 1.9% in 2007. Continuing an upward trend that started in mid-2007, annual HICP inflation increased gradually in the first half of 2008 against the background of rising food and energy prices. After reaching a peak of 4.5% year-on-year in September 2008, annual HICP inflation eased in the last months of 2008.

The disinflationary process since September 2008 was largely driven by decreasing food and fuels prices due to favourable base effects combined with falling energy and food prices on international markets. However, these disinflationary trends were partially offset by the increasing inflation contribution of tobacco and heating prices. Tobacco prices started to rise in October, reflecting the delayed impact of higher excise taxes on cigarettes as of the beginning of 2008. Increases in heating prices were induced by administrative price hikes in the third quarter of 2008 necessitated by elevated gas prices in the first half of 2008. Despite strong exchange rate appreciation in the first half of 2008, the inflation contribution of non-energy industrial goods prices increased somewhat in the second half of 2008.

Annual HICP inflation eased to 2.7% year-on-year in January 2009 and further slowed down to 2.4% year-on-year in February 2009, reflecting the expected deceleration in food and energy prices. According to the Commission January 2009 forecast declining food and fuel prices are likely to bring average inflation down to just below 3% in 2009, while in 2010, rising energy and services prices may induce a rebound in HICP inflation to 3.5%.

Provisional calculations estimate the total (one-off) impact of the changeover on headline inflation during and immediately after the changeover to be within the range of up to 0.3 percentage points[10].

### 4.2. Price perceptions

According to the Commission survey, a relative majority of Slovaks were positive about the impact of the euro's introduction on prices: 42% thought it would help maintaining price stability while only 19% (compared to 66% of Cypriots, 52% of Slovenes and 37% of Maltese)was concerned that the euro would increase inflation[11]. Positive feelings of Slovaks about the impact of the changeover on prices were also reflected in the results of the measurements of perceived inflation.

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9 Commission Recommendation on measures to facilitate the future changeover to the euro, OJ L 23/30 of 26 January 2008

10 Eurostat : Euro changeover and inflation in Slovakia, 23 March 2009

11 Flash Eurobarometer 259, January 2009.

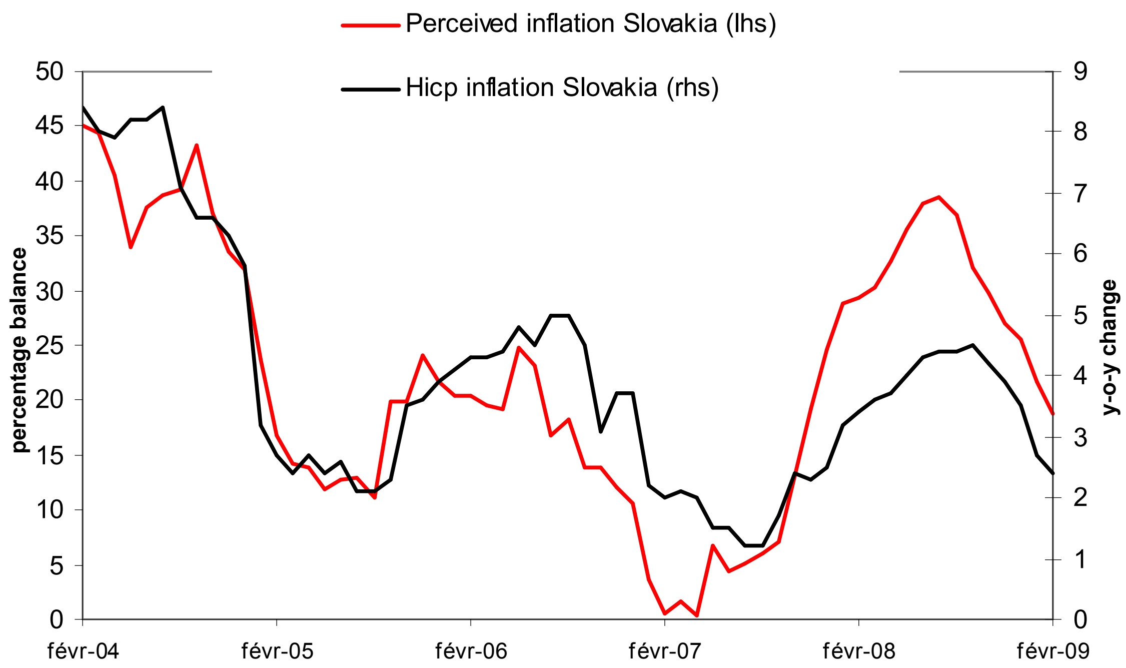
Inflation perceptions have generally followed the same trend as HICP inflation in Slovakia in the last couple of years. But the previously strong correlation between the two series (0.9 in the period 2004-2007) weakened somewhat in 2008 (to 0.67), when the acceleration of actual inflation in 2008 was accompanied by a stronger jump in inflation perceptions. Subsequently, inflation perceptions dropped sharply while actual inflation moderated. The more pronounced reaction of perceived inflation than of the actual inflation is however observed for most of the EU Member States, and it might be at least partially linked to the fact that the pervious period of high global commodity prices had a considerable impact on perceptions.

January data from the Commission's Consumer Survey show that inflation perceptions have not been affected by the changeover. Perceived inflation remained on its downward trend and reached 21.7 pp in January, down from 25.6 pp in December. In February, perceived inflation went down further, to 18.7 pp. In the context of declining HICP inflation, it is indeed more difficult to disentangle the impact of the euro changeover on inflation perceptions.

**Graph 3**

**Perceived and actual inflation**

(*In %*)




## 5. COMMUNICATION CAMPAIGN ON THE CHANGEOVER AND PUBLIC PERCEPTION

The communication campaign on the introduction of the euro started in 2007 with the launch of a national euro website and free telephone help line and the organisation of seminars and conferences. A fully fletched communication campaign started in spring 2008.

The goals of the campaign were to inform all Slovak citizens about the key aspects of the changeover in a timely and exhaustive manner. The centrally organised mass media campaign in TV, radio and in print media ran from March 2008 until February 2009. It was supported by a massive distribution of publications and euro calculators to all households, a constantly updated (and massively visited) website, specialised projects for schools and journalists, a train-the-trainers programme and a 'Euromobile' bringing up to date information to remote areas. A well covered euro conference, in September 2008, co-organised by the national authorities, the ECB and the Commission, marked the start of the last, most intensive phase of the euro campaign. The campaign peaked with the festivities on 1 January 2009. Throughout the campaign, the Slovak authorities paid special attention to specific target groups (children and youth, elderly, people with disabilities, ethnic minorities and others) and provided them with tailor made tools explaining the key steps and elements of the changeover.

The Commission supported the campaign in technical and financial terms. This included the provision of publications and promotional material, the organisation of exhibitions, seminars for journalists and opinion polls. Via several grants, the Commission financed a part of the salaries of communication staff, the media campaign, the national help line and website, the project for schools, the programs for multipliers, the euro calculators and the 'Euromobile'.

The experts from Slovakia participated in information and training actions organised by the Commission/OLAF, ECB and Europol with a view to making them familiar with the procedures and methods designed to protect euro against counterfeiting.

The European Central Bank also implemented in cooperation with the NBS joint activities aimed at familiarising the general public and the professional cash handlers with the euro cash changeover modalities and the security features of euro banknotes and coins.

The national campaign on the euro can be perceived as successful: according to the January 2009 Eurobarometer, 90 % of Slovaks felt very well to rather well informed and almost 84% were rather or very satisfied with the information provided by the national authorities. This certainly contributed to the overall perception of the changeover: nine out of ten Slovaks perceived the changeover as smooth and efficient. The media were by far the principal information source for most citizens (93 %), followed by the National Central Bank (20 %). Some 90% of respondents stated to have seen the euro TV spots: most of them found the spots very or rather useful. Nearly all Slovaks said to have received the euro calculator (95 %) and some two-thirds found them to be useful. When asked about persisting information needs, some 31 % of Slovaks wished to learn more about the security features of euro banknotes and coins (4 in 10 respondents could not name any security feature at the time of the survey), 22% wanted to know more about fair rounding of prices while 19% wished to have more information on how to avoid being cheated in the currency conversions.

**The well managed information campaign in Slovakia contributed to ensuring a smooth changeover to the euro. The campaign was comprehensive: it paid attention to all target groups, including the minorities and people with special information needs. The authorities should address the population's persisting information needs: to provide additional information on the security features of euro cash and to keep addressing the fair pricing issues and fears related to it.**