

# National Euro Changeover Plan for the SR

## Part II: tasks of individual sectors of the economy

### Contents

1.	Cash changeover .....	2
2.	Introducing the scriptural euro .....	10
3.	Euro Introduction in general government and local authorities .....	20
4.	Consumer protection during the euro changeover and its impact on citizens.....	24
5.	Euro changeover in the business sector.....	30
6.	Legislative requirements for the euro changeover .....	34
7.	Information sources on the euro introduction .....	42
8.	Support of the euro changeover by information and statistical systems .....	50
9.	Recommendations of the National Coordinator.....	53
10.	Appendix 1: Inflation risks of the currency changeover and how to address them .	58
11.	Appendix 2: Common symbols of the information campaign .....	71
12.	Appendix 3: Glossary .....	72

## **1. Cash changeover**

### **1.1) Description of the most important tasks**

#### **1.1.1) Providing euro banknotes and euro coins**

At the set date for introducing the new currency unit, the euro, it is necessary to ensure a sufficient quantity of euro banknotes and euro coins in a required structure both for circulation and for NBS supplies.

Ensuring the provision of euro will require:

Provision of euro banknotes:

- The most likely possibility of provision of euro banknotes is to borrow from the eurozone supplies for the whole of frontloading and the whole of 2009 requirements. The NBS would return the banknotes in 2010, possibly earlier. Only new (un-issued) banknotes in a single denomination will be returned so that they correspond according to the equivalent key<sup>1</sup> of the ECB to the banknotes borrowed.
- At present the production of banknotes in the eurozone is done according to a production “pooling scenario”. Individual countries must ensure the production of a certain quantity of banknotes of a certain denomination. These banknotes are subsequently distributed according to the requirements of individual central banks and to eurozone supplies. A second possibility is that Slovakia would have banknotes produced in this scenario. None of these possibilities has yet been solved at the level of the eurozone.

With this task is closely connected that of ensuring the transport of the euro banknotes to the NBS.

Provision of euro coins:

1. Selection of the national face of coins. This process has already begun and will be completed in December 2005.
2. Selection of a mint (via closed tender) or through assignment to the state enterprise Mincovňa Kremnica (if it is accredited for minting of Slovak euro coins) for the production of coins of the individual denominations with the Slovak face.
3. Concluding of contracts for the minting of coins with mints, or a mint.
4. Production of coins. This is a challenging process both technically and in terms of time. The preparatory steps, including the production of a trial series of coins and their testing, may be done prior to the decision of the EU Council on the abrogation of the derogation for the SR. Following the decision of the EU Council on the acceptance of the SR into the eurozone mass-production of euro coins may begin.

In the case that it is not possible to ensure the production of euro coins with the Slovak face, the NBS will purchase or borrow a necessary quantity of coins or a part of coins from one of the central banks of the eurozone.

#### **1.1.2) Frontloading banks with euro banknotes and euro coins**

At present it is difficult to set a specific procedure for frontloading euro banknotes and euro coins for banks prior to 1 January 2009, because the NBS cannot issue a foreign currency

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<sup>1</sup> The equivalent key of the ECB determines what quantity of banknotes of one denomination is equivalent to another denomination for the needs of banknote exchange between central banks of the eurosystem. For example, a EUR 500 banknote is an equivalent of approx. two EUR 20 banknotes. The equivalent key is set according to the average costs for printing the banknotes.

prior to the date of euro introduction. It will be possible to ultimately resolve this issue only on the basis of a decision by the ECB. At present there are two alternatives.

The first is the frontloading of banks with euro from the NBS prior to 1 January 2009 in a manner similar to that done in eurozone countries. This alternative would appear to be the best.

Commercial banks will estimate in advance their requirements for banknotes and coins in individual denominations already at the stage of planning the needs for euro banknotes and euro coins in the SR (till the end of dual circulation period – 16 January 2009). Till the end of March 2008 banks should send their orders for euro banknotes and euro coins according to individual denominations for the frontloading requirements and for the first two weeks of 2009. The orders will be bindingly specified in July 2008. Based on these orders banks could take over supplies of euro coins from September 2008 and from mid-November take over supplies of euro banknotes in the framework of frontloading. Supplies of money from the NBS will be secured by collateral (securities, etc.). Costs for the transport of cash will be borne by the banks themselves. It will be necessary to solve how the transfer of euro cash will be recorded in terms of accounting prior to the euro changeover date.

The second alternative does not assume the option of frontloading euro prior to 1 January. Banks will be able, on a voluntary basis, to obtain euro from abroad via foreign currency operations. Banks will be able to take into custody from the NBS packages with supplies of banknotes and coins, but will not be able to dispose of them prior to the set date (the packages will, for example, be sealed).

The first alternative seems more likely, though with regard to the fact that no opinion is as yet known from the side of the ECB, it is necessary to take both possibilities into consideration.

### **1.1.3) Sub-frontloading**

Sub-frontloading means the frontloading of shops and businesses with euro and ensuring a timely distribution of cash to the public, mainly via ATMs, cash withdrawals and post offices. The realization of this task is linked to the successful frontloading of banks with euro banknotes and euro coins.

In essence two basic ways are possible here.

The first is similar to that which was performed in the eurozone countries. The competences for ensuring these tasks lay fully with banks. Based on their own analyses and following guidance from the NBS banks will determine how much and in what structure they will need euro cash (frontloading) for their clients in retail and business sectors. They will also determine the need for cash for the public, which will be distributed via ATMs, cash withdrawals and post offices (for banks which have a post office as a client). From the aspect of a specific bank's overall need for euro cash, it is irrelevant whether it needs it for retailers, businesses, the public (ATMs), cash withdrawals or for other clients. Commercial banks will ascertain their overall need for banknotes and euro coins according to the individual denominations at the changeover date and notify the National Bank of Slovakia of this on the set date.

The second way assumes that frontloading of shops and businesses with euro cash prior to the date of introducing the euro into circulation will not be possible. The National Bank of Slovakia for security reasons cannot put supplies of euro cash into deposit at shops and businesses and also cannot issue them prior to the date set by law. Commercial banks in this case can solve frontloading with euro for shops and businesses via foreign exchange transactions.

#### Providing euro cash for bank clients

1. Commercial banks and the NBS, based on their analyses, will determine the overall need for euro cash.

2. Commercial banks will order the necessary quantity of euro cash in the required structure, in the manner used and contractually agreed with the NBS.
3. The National Bank of Slovakia will provide banks with euro cash in the required quantity and structure.

#### **1.1.4) Loading of ATMs with euro**

At present there are approximately 1700 ATMs in the SR (banks are installing approximately 200 new ATMs per year) and all of them are adjusted for Slovak koruna (the size of cassettes in the ATMs, accounting, screen settings, etc). Until 31 December 2008 ATMs must be able to issue koruna, as of 1 January 2009 ATMs must be able to issue euro. After the conversion rate is set confirmation slips and screens should give dual statements. At the turn of the year ATMs should contain the most frequently withdrawn Slovak koruna denominations (until 31 December 2008) and the lowest euro denominations (from 1 January 2009 onwards).

With regard to the technological complexity of ATMs and clearing processes, software will be adjusted so that banknotes are issued in koruna until the end of 2008 and from 1 January 2009 the issuing of euro banknotes will begin.

Since in changing ATMs physical modifications are necessary, ATMs will need to be adjusted for issuing euro banknotes. The exact schedule of the conversion of ATMs to euro will be set by the end of 2007. The aim is for the largest number of ATMs (ideally all) to issue euro banknotes from the beginning of 2009. Banks will coordinate the conversion of ATMs so that in individual municipalities and towns ATM services remain available. At the beginning ATMs will be loaded with the low euro banknotes denominations.

#### **1.1.5) Setting POS terminals**

A POS terminal is a payment terminal, which enables payments by debit or credit payment cards. Mostly they are the property of banks. POS terminals are connected via a telecommunications network to an authorization center. At present all POS terminals are set to SKK and the software update of all POS terminals can gradually be performed remotely. At 1 January 2009 it is possible to ensure clearing in euro by a setting in the authorization center, regardless of the software setting on the POS terminal. After the conversion rate is set confirmation slips and the display of units on terminals should be set to dual mode.

Besides POS terminals payment cards may also be accepted by way of imprinters – a mechanical device for embossing data from the payment card. In this case the adjustment to be made in changing over to the euro will be to exchange pre-printed sales blocks and distributing new manuals and guide books, which can be done in advance of 1 January 2009. Liabilities towards traders not settled over the turn of the year will from 1 January 2009 be settled in euro at the fixed conversion rate.

#### **1.1.6) Withdrawing Slovak koruna from circulation**

The process of withdrawing Slovak koruna from circulation may be divided into two fields, representing withdrawal from:

- legal persons (other than banks), natural persons – entrepreneurs, and natural persons – non-entrepreneurs,
- banks.

##### Description of the process of withdrawing Slovak koruna from circulation

1. Dual circulation will last until 16 January 2009.
2. During dual circulation and following its end it will be possible to exchange:
  - banknotes at banks until the end of 2009 and coins until the end of June 2009,
  - banknotes at the NBS for an unlimited time and coins until the end of 2014.

3. Over the course of 2009 banks must exchange for citizens free of charge at one visit<sup>2</sup>:  
coins - up to 50 pieces,  
banknotes – up to 50 pieces.
4. At least during dual circulation<sup>3</sup> banks will exchange for their clients, in particular business subjects, koruna banknotes and coins, if they are counted and sorted, up to a value set by the NBS, however not above EUR 15 000. This exchange may be made also in the form of a cash deposit to an account. Cash deposits or withdrawals to/from an account, which do not have a cash changeover character, will be exercised according actual rules for these bank transactions.

In exchanging koruna banknotes and coins for euro the procedure will be that pursuant to applicable legal regulations (mainly Act No 483/2001 on banks and on the amendment to certain acts and Act No 367/2000 Coll. on the prevention of the legalization of incomes from criminal activity and on the amendment to certain acts).

The plan for withdrawing koruna coins and banknotes from circulation and their destructions will be prepared by the NBS by the end of 2007.

### **1.1.7) Transport and protection of cash**

The realization of this task will depend on the decision as to whether the National Bank of Slovakia will place its supplies necessary for banks prior to the changeover date at their premises in deposit, or whether it will simply issue them from its supplies to banks at the changeover date. The banks will ensure the transport and protection of the transports, according to the current regulations. The NBS will coordinate the whole process.

#### Ensuring the transport and transport protection of cash

1. Decision on the placing euro cash supplies necessary for individual banks into deposits at their premises.
2. Discussing the protection of cash supply transports into deposit with the Ministry of the Interior of the SR in cases where the money transport will not be performed by transport teams of the NBS.
3. Discuss with the Ministry of the Interior the need for ensuring the protection of NBS buildings at the time of transporting euro cash and at the time of performing the exchange of Slovak koruna for euro for individual cash circulation subjects.

### **1.1.8) Training of bank and other staff**

The success of euro changeover will depend on how the banking sector as a whole manages the preparation and realization of introducing the single currency. An important factor in success is the engagement of bank staff at all levels of management.

The following system of training is expected in the banking sector:

Basic theme	Organizer
1. Legal framework for euro introduction in EU legislation and related changes in the Slovak legal system.	NBS
2. Changes in the non-cash system of payments and SIPS	NBS

<sup>2</sup> Based on Article 17c of the Act on the NBS the NBS and banks must exchange free of charge banknotes and coins declared void for valid banknotes and coins with the same total value. This provision will apply accordingly also to the exchange of koruna banknotes and coins for euro following the end of dual circulation. However, the current practice is that although banks formally exchange banknotes and coins free of charge, in some cases they charge a fee for processing. It is proposed that the banks and the NBS do not charge, up until a certain limit, any fees for any activities connected with the exchange of koruna banknotes and coins for euro.

<sup>3</sup> Banks should accept koruna banknotes and coins from business subjects under the same conditions as the ones applicable prior to the introduction of the euro. Banks will proceed in this manner during the dual circulation and at least another working day – i.e. until 19 January 2009.

conversion	
3. Functional and legal framework of the changeover to the TARGET 2 European system of payments and related changes in the system of clearing of large-volume payments	NBS
4. euro cash security features and cash manipulations – training instructors in the banking and commercial network <sup>4</sup> A special training will be organized for the members of police	NBS in cooperation with the Association of Banks (banking network) and Slovak Chamber of Industry and Commerce (trade network)

Supplementary form of education will be a conference on the conditions of euro changeover in the SR, which will be organized by the NBS and the Association of Banks.

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<sup>4</sup> Instructors trained in this way will in the second stage train bank staff (instructors designated by the Association of Banks) and cash-handlers (instructors designated by the Slovak Chamber of Industry and Commerce).

## 1.2) List of tasks

Task	Responsibility	Link to other tasks	Time demands	Fulfillment deadline	Start date	Control dates	Costs
<b>1.1.1) Providing euro banknotes and euro coins</b>							
1. Determining the quantity of euro cash	NBS	Amendment to the Act on the NBS		December 2007			Operating costs of the NBS
2. Selection of printing work and mint	NBS			December 2007			Operating costs of the NBS
3. Minting of coins				December 2008	June 2008		Borne by the NBS
4. Transport and distribution of euro cash to the NBS	NBS	Amendment to the Act on the NBS		December 2008			Borne by the NBS
<b>1.1.2) Frontloading banks with euro banknotes and euro coins</b>							
1. Determining the quantity of euro cash for banks and payment for euro cash	banks and NBS	1.1.1)		Determination of quantity of banknotes March 2008	June 2006	semi-annual update	Operating costs of the NBS
2. Distribution to banks	banks	1.1.1)		December 2008			Borne by banks
3. Provision of packaging for euro	NBS			30.6.2008			Borne by the NBS and banks

Task	Responsibility	Link to other tasks	Time demands	Fulfillment deadline	Start date	Control dates	Costs
<b>1.1.3) Sub-frontloading</b>							
1. Determining cash consumption and its procurement from the NBS	banks	1.1.1) 1.1.2)		30.9.2006	30.6.2006	semi-annual update, final determination by 30.9.2008	Operating costs of banks
2. NBS Decree on issuing euro currency	NBS			30.6.2008		March 2008	Operating costs of the NBS
3. Provision of cash for banks	NBS			31.12.2008			Operating costs of the NBS and banks
<b>1.1.4) Loading of ATMs with euro</b>							
1. Software adjustments banks and authorization centers	banks and authorization centers		2 years	September 2008	January 2007 January 2008 June 2008	semi-annual control	Borne by banks
2. Preparation of cash to ATMs	banks	1.1.2)	Preparation 1 year, realization approx. 1 week	31.12. 2008	January 2008		Borne by banks
<b>1.1.5) Setting POS terminals</b>							
1. Software adjustments banks and authorization centers	banks and authorization centers		1-2 years	September 2008	January 2007	September 2008	Borne by banks

<b>Task</b>	<b>Responsibility</b>	<b>Link to other tasks</b>	<b>Time demands</b>	<b>Fulfillment deadline</b>	<b>Start date</b>	<b>Control dates</b>	<b>Costs</b>
2. Distribution of forms, manuals, etc.	banks		1 year	September 2008	June 2008	September 2008	Borne by banks
<b>1.1.6) Withdrawing Slovak koruna from circulation</b>							
1. NBS Decree on making the Slovak currency invalid and its exchange for euro	NBS	Legislative amendments		June 2008		March 2008	Operating costs of the NBS
<b>1.1.7) Transport and protection of cash</b>							
1. Allocation of cash supplies	NBS			December 2008		December 2005	Borne by the NBS
2. Protection of buildings and transports	NBS			December 2007			Borne by the NBS
<b>1.1.8) Training of bank and other staff</b>							
1. Specification of the manner and needs of training	NBS and AB		2-3 years	December 2008	January 2006	December 2007 December 2008	Operating costs of the NBS and Association of Banks

## **2. Introducing the scriptural euro**

### **2.1) Description of the most important tasks**

#### **2.1.1) Changes in the domestic interbank payment system SIPS**

The payment system SIPS is the sole interbank payment system of the Slovak Republic, which realizes all non-cash payments in Slovak koruna. Twenty-seven banks and financial institutions are connected to the SIPS. The operator of the SIPS and the clearing agent for system participants is the NBS. Following the euro changeover domestic payments will continue to be processed in the SIPS. Updating the software for the SIPS payment system will be performed over the course of 2007 and 2008. Conversion of SIPS is an essential condition for non-cash circulation of the euro in the SR. The time schedule relating to the processing and clearing of payments at the turn of the year 2008/2009 will be specified by the National Bank of Slovakia during 2008.

Updating the SIPS system involves:

1. implementing the new euro currency,
2. implementing the rounding of the euro,
3. implementing the euro currency into the clearing sentence (SR national standard),
4. implementing the currency into the SIPS control mechanisms,
5. implementing the euro currency into the SIPS statistics and reporting,

The dual pricing of banking services and generation of dual statements for participants in the SIPS pursuant to Point 2.1.12) does not apply to the SIPS operation.

Updates of the SIPS will require changes and supplements to the contracts on the SIPS payment system.

#### **2.1.2) Connection to the European system of payments TARGET 2**

**TARGET** (Trans-European Automated Real-Time Gross Settlement Express Transfer System) is a euro payment clearing system operating in real time, covering the territory of Europe. The current TARGET uses the existing infrastructure of member states. At present project works are underway on a new TARGET system, designated TARGET 2. TARGET 2 will enable a direct connection of, besides central banks and financial institutions, also affiliated systems (e.g. securities clearing systems). The launch of the TARGET 2 system into operation is planned for 2 January 2007. In 2005 and 2006 works within the project will focus mainly on developing the system itself and its internal testing, also by users.

Coordination of the connection to the TARGET system in Slovakia will be ensured by the NBS. In May 2004 the NBS decided that the SR will connect to the TARGET system at latest at the time of adopting the euro. Since the time necessary for connecting to the TARGET 2 system is approximately two years, preparations will begin following Slovak entry into ERM II. Completion of the works for connecting the SR to TARGET 2 is forecast for August 2008.

A condition for connecting to TARGET 2, applying to each participant (i.e. equally for the central bank, financial institutions and affiliate systems) is that they must undergo testing, verifying capability or fulfillment of requirements for participating in the system from the participant side, from the operating and technical aspects. The specific content of this testing is not yet known.

With regard to the fact that the central bank will remain responsible for providing intraday credit, which must be secured by collateral – securities, it will be necessary for the Register of Short-Term Securities to undergo analysis as to whether the securities registered here correspond to the criteria set by the ECB for acceptability of collateral.

### **2.1.3) Conversion of client accounts and credit products, letters of credit, collaterals and checks at banks**

The conversion to euro of client accounts and credit products administered in koruna will be done precisely according to the set conversion rate. Banks will automatically convert them on 1 January 2009 without any related charges to clients. Banks will inform clients in advance of this operation in an appropriate manner.

Corresponding tasks:

1. Guide the conversion process (coordination at the level of the Association of Banks).
2. Take steps to keep unchanged clients original koruna account numbers following their conversion to euro.

In credit products, letter of credits and collaterals it will be also necessary to solve:

- the conversion of adjusting entries,
- recalculation of insurance premiums,
- conversion of collateral accepted in koruna.

The euro introduction must not be a reason for changing credit conditions and a revision of contracts; the principle of contract continuity must be complied with.

### **2.1.4) Payment cards changes**

Payment cards (debit or credit cards) are cards issued as a rule by banks, or non-bank card companies, or also in certain cases they may be issued by other financial institutions. The change in payment cards will concern cards issued to accounts administered in koruna which at 1 January 2009 will have to be recalculated at the fixed conversion rate to euro. The period of payment cards validity varies, at present payment cards are mostly valid for two years. It will not be necessary to exchange the payment cards, which will remain valid over the turn of the years 2008/2009 (i.e. issued roughly in the period January 2007 to December 2008). Issuers in the field of chip cards will have to ensure the technologically correct setting of parameters in the chip during the euro changeover.

Euro changeover experience and recommendations of international card companies (VISA, MasterCard), or suppliers of chip applications and cards, will be used, where these companies have already undergone this change in the eurozone. At the level of the Slovak Bank Cards Association common principles and rules will be agreed for the euro changeover with the aim of unifying the procedure of individual member banks, especially in the field of accepting payment cards.

### **2.1.5) Conversion of nominal values of securities and registered capital**

In consequence of the euro introduction it will be necessary to recalculate to euro the nominal values of all securities in koruna. In the case of asset securities the procedure will be in accordance with the rules from Part 5.1.6), debt securities will be recalculated according to the conversion rate at 1 January 2009, with standard rounding to two decimal places.

Some financial institutions having a specifically set minimum registered capital value will represent a special case. Following recalculation to euro these values must correspond to EU directives.

In the Act on Securities, in some of the coming amendments with effect from 1 January 2009 a change will be made to the minimum amount of registered capital to be held by a securities broker, to at least the sum set by Directive 93/6/EC. In the Act on the Insurance Industry a similar adjustment will be made, harmonizing it with respective directives in the field of life and non-life insurance. In the Act on Banks the change made will be to at least the sum set by Directive 2000/12/EC.

It will also be possible to make changes in relation to other financial institutions, where minimum capital requirements do not originate from European directives (for a Stock Exchange in the Act on Stock Exchange, for the central depository in the Act on Securities, for pension fund management companies in the Act on Old-Age Pension Savings, for supplementary pension fund management companies in the Act on Supplementary Pension Savings, and possibly for brokerage subjects in the field of investment services and the insurance industry).

#### **2.1.6) Revaluation of securities and dual statements**

Financial institutions managing clients' assets, where their value is given by the value of the securities managed, will in connection with the euro introduction revalue these securities and inform clients of the new value of their investment.

Where there are no other mechanisms for publishing this information (e.g. fund management companies publish the value of a unit and pension fund management companies publish the value of pension units), it is desirable that these financial institutions within an appropriate time following the euro introduction inform clients of the new value of their assets.

Financial institutions will be obliged to send to clients at least once in the second half of 2008 information on the value of the investment which will include the recalculation of its value to euro at the conversion rate. There will be an obligation to determine, for securities which were agreed to be evaluated in koruna, their value in euro on 1 January 2009 and to send this information to the client in the first quarter of 2009.

The NBS will specify precisely the scope of financial institutions and cases to which this obligation will apply.

#### **2.1.7) Rounding the value of pension units and collective investment units**

The value of a client's investment in collective investment systems (in the compulsory form of old-age pension savings, in the voluntary form of collective investment and supplementary pension insurance) is expressed in units, which are valued on a regular basis. A pension unit, pursuant to the Act on Old-Age Pension Savings, is currently calculated with a precision to 4 decimal places, the precision of calculating the value of a unit (in a mutual fund) is not currently set. As a rule the value moves in the range of SKK 1 – 2, which following recalculation at the conversion rate will correspond to approximately 3 to 4 cents. In the case of such a sum rounding to whole cents would mean, given the substantial shift in the value, a high relative error and may cause significant imprecision and harm to the rights of savers and unitholders.

In the Act on Old-Age Pension Savings the precision of the calculation of the pension unit will be changed to 5 - 6 decimal places. In the Act on Collective Investment the obligation will be laid down to calculate the current value of a unit (possibly with a restriction to cases where the value of the unit is lower than a set limit, e.g. EUR 5) with a precision to 3 – 4 decimal places.

The initial values of mutual fund units created before 2009 will be recalculated with the same precision.

The total value of a client's assets or investment will normally be rounded to whole cents.

#### **2.1.8) Reporting historical performance in collective investment**

Collective investment subjects (in a broader meaning) normally report the historical performance of their products for a period of several months or years. Since their portfolios could in the past have contained assets in foreign currencies (in particular in euro), which at that time were valued at the then current exchange rate, doubts could arise as to whether the calculation base for historical performance should be taken as the past value in koruna, which

will be recalculated at the conversion rate, or whether these subjects will have the option of calculating the past value in euro for assets which were denominated in euro.

For the purpose of continuity and comparability of reported historical performance the calculation base will be taken to the past koruna value of the investment as it was set at the time and it will be expressed in euro by a recalculation at the conversion rate.

In this way the value of units and historical performance may be reported on a dual basis already in 2008, when the conversion rate will be set.

### **2.1.9) Securities trading**

For ensuring the continuation of trading in securities and other instruments on a regulated market, the stock exchange will change information on the nominal values of traded instruments in its systems, recalculating their rates to euro and adjusting the value of a tick (the smallest unit by which values on the stock exchange can change). The clearing and settlements system will also be technically adjusted.

System changes will be made during the normal technological shutdown at the turn of 2008 and 2009 so that it is possible to continue trading on the regulated market.

### **2.1.10) Recalculating and replacing market indices**

Euro introduction must not have any effect on the continuity of existing contracts. In no case will it be possible to terminate the force of any contract due to the changeover to the common currency, whether through declaring the lapsing of the legal basis for concluding the contractual relation or the lapsing of other legal instruments, unless agreed otherwise pursuant to freedom of contract. This principle of contractual continuity is set in Council Regulation No 1103/97.

For the purpose of attaining the maximum benefits of the euro adoption it is desirable to support a certain degree of harmonization to euro markets via common characteristics of euro currency markets, applicable in all eurozone countries.

For the cases of transactions and contracts linked to price sources it is necessary to perform a transformation of the koruna price sources to euro price sources. The umbrella law will lay down the rules on:

1. the expiry of the BRIBOR reference interest rate and its replacement by the EURIBOR rate,
2. the expiry of the SKONIA reference interest rate and its replacement by the EONIA rate,
3. the expiry of the base / limit interest rate of the NBS and its replacement by the MRO (main refinancing operation) rate of the ECB.

Regarding with the harmonization of market conventions on the financial market and the move towards transparent commercial practices and towards limiting potential disputes, the NBS will specify:

1. business days for the payment of financial flows (interest payments, principal installment payments),
2. bases for conventions on the number of days (actual number / 360).

### **2.1.11) Electronic banking**

Electronic banking covers electronic distribution channels, electronic money and electronic purses, electronic signatures.

#### Electronic distribution channels

In the framework of electronic distribution channels it is necessary to make software adjustments on the side of software suppliers, software users (banks' clients) and processors (banks). In order to optimize costs it is necessary to harmonize, or consult on technological

adjustments between banks, electronic banking software suppliers and suppliers of accounting software for clients. At latest at the beginning of 2008 it is necessary to begin actively addressing clients and notifying them of the coming changes. From the date of setting the conversion rate all amounts should be stated in a dual mode.

#### Electronic money and electronic purses

An electronic purse is a chip card which serves for the payment for goods and services and which can be charged in charging terminals. At present there are no institutions issuing electronic purses in Slovakia, and so it is not necessary to make any adjustments depending on the currency changeover. In the event that electronic purses were begun to be issued, we propose that software is created, at the introduction of this product, so that it would fully support the immediate changeover from koruna to euro at 31 December 2008.

Electronic signatures do not depend on the changeover from koruna to euro.

### **2.1.12) Dual statements, dual pricing of banking services**

The dual pricing of banking services will be in accordance with the general rules of dual pricing, set in Part 4.1.2)

The issue of dual pricing in the banking sector will be specifically solved by adjustments in:

1. account statements,
2. price lists of banking services,
3. banks (general) business conditions.

Bank account statements must contain the fixed exchange rate used for recalculations of sums and also:

1. during the period prior to the euro introduction account statements in Slovak koruna will include an item showing the final account balance also in euro, only for information as a minimum requirement; it is however admissible also to show all entries (and balances following each item, if used for example on a loro account) in euro,
2. following the euro introduction, when accounts will be transferred over to euro, the final balance will also be shown in Slovak koruna for information as a minimum requirement, and entries to the account and sub-totals may be stated for information also in Slovak koruna.

It is necessary to solve the specific case of statements at 31 December 2008 issued yearly. The statement in 2009 (for 2008) will be both in koruna and euro, clients however will need to be informed of this in advance, in 2008.

Price lists of banking services need to be issued in both currencies throughout the whole period of mandatory dual pricing.

Decisions of banks on selected approach to dual pricing will be governed by banks in their business conditions and they will inform clients of all changes in an appropriate form, for example instructions on the reverse of statements, information leaflets, etc.

There is also the option of accepting the recommendation of the Association of Banks on a dual pricing beyond the statutory framework of obligations or for harmonizing procedures between banks, where all member banks will reflect these in bank account statements.

### **2.1.13) Amendment to the Act on the NBS**

It is necessary to amend the Act on the NBS in order to comply with the institutional conditions for Slovak entry to the eurozone. Compliance of the Act on the NBS with the Treaty establishing the European Community and the Statute of the ECB will be assessed in the Convergence Report in the same manner as the fulfillment of the Maastricht Criteria. Without a positive evaluation of the legal framework of Slovak connection to the eurozone,

which is mainly formed by the Act on the NBS, the ECB and the European Commission will not recommend abrogation of the derogation for Slovakia.

Besides the fact that an amendment to the Act on the NBS is essential for favorable convergence reports, it is also necessary also for ensuring the smooth transfer of monetary policy to the ECB and the transfer of further competences.

The amendment to the Act on the NBS will have to treat mainly the NBS integration into the ECB:

- subordination to legal acts of the ECB,
- transfers of the performance of monetary policy to the ECB in accordance with the Statute of the ECB (Articles 2, 4, 6 and 18 of the Act),
- change in the performance of foreign exchange operations and foreign exchange policy, or the administration of foreign exchange reserves (Article 28),
- right to issue banknotes and coins (Articles 2, 6 and 15 to 17h of the Act),
- definition of the currency unit (the euro),
- functions, operations and instruments of the European System of Central Banks (Articles 18, 20, 21, 23, 24 and 27).

It will also be necessary to change the appointment of the Auditor of the NBS (at present appointed by the Supreme Control Office) so that this person is appointed by the Council of the EU at the proposal of the Governing Council of the ECB.

The amendment to the Act on the NBS must be valid at latest at the time of assessing convergence, i.e. in spring 2008. The effect of the parts transferring competences to the ECB will be conditional on abrogation of the derogation becoming effective and Slovak entry to the eurozone.

The amendment to the Act on the NBS will be prepared and submitted for discussion in April 2006. An advantage of this solution is that compliance of the amended Act on the NBS with the Treaty and Statute of the ECB can be assessed already in the regular convergence report in 2006. In this way substantially greater certainty of a positive evaluation in 2008 is achieved.

Changes to further acts will be prepared in accordance with the plan set out in Chapter 6.

## 2.2) List of tasks

Tasks for banks affect in an appropriate scope also the State Treasury

Task	Responsibility	Link to other tasks	Time demands	Fulfillment deadline	Start date	Control dates	Costs
<b>2.1.1) Changes in the domestic interbank payment system SIPS</b>							
1. Update	NBS + participants (testing)	Acts on the System of Payments, on the NBS, on Banks	26 months	August 2008	June 2006	September 2007 July 2008	Borne by the NBS and SIPS participants
2. Updating the contract on the payment system SIPS	NBS		7 months	August 2008	January 2008	March 2008 July 2008	Operating costs of the NBS and SIPS participants
3. Decision on the use of IBAN format	NBS			June 2006			Operating costs of the NBS
4. End of 2008	banks			10.12.2008			Operating costs of banks
5. Amendment to the Act on the payment system	NBS			June 2008	January 2007	December 2007	Borne by the NBS
<b>2.1.2) Connection to the European system of payments TARGET 2</b>	NBS		26 months	August 2008	June 2006	December 2006 June 2007 January 2008 July 2008	NBS and banking sector
<b>2.1.3) Conversion of client accounts and credit products, letters of credit, collaterals and checks at banks</b>							
1. Conversion of accounts and credit products	banks	Legislative changes, adjustments in the banking information systems	26 months	31.12.2008			Borne by banks

<b>Task</b>	<b>Responsibility</b>	<b>Link to other tasks</b>	<b>Time demands</b>	<b>Fulfillment deadline</b>	<b>Start date</b>	<b>Control dates</b>	<b>Costs</b>
2. Account numbers following the conversion	banks			31.12.2008			Borne by banks
<b>2.1.4) Payment cards changes</b>	banks, authorization and processing centers, NBS, Bank Cards Association	Point 2.1.1)	2 years banks 2 years authorization center 1 year – organizational arrangements with servicing companies	1.1.2009	January 2007	January 2008 June 2008 September 2008	Borne by banks and the NBS
<b>2.1.5) Conversion of nominal values of securities and registered capital</b>	Ministry of Finance – financial market laws		Period for the realization of legislative process	September 2008			Operating costs of the Ministry of Finance and the Ministry of Justice
<b>2.1.6) Revaluation of securities and dual statements</b>	NBS - guidance			end of 2007 – NBS and beginning of 2009 – financial institutions			Operating costs of the NBS
<b>2.1.7) Rounding the value of pension units and collective investment units</b>	Ministry of Labor, Social Affairs and the Family – amendment to the Act on Old-Age Pension Savings		Period for realization of legislative process	end of 2007			Operating costs of the Ministry of Labor, Social Affairs and the Family

<b>Task</b>	<b>Responsibility</b>	<b>Link to other tasks</b>	<b>Time demands</b>	<b>Fulfillment deadline</b>	<b>Start date</b>	<b>Control dates</b>	<b>Costs</b>
	Ministry of Finance – amendment to the Act on Collective Investment						
<b>2.1.8) Reporting historical performance in collective investment</b>	NBS – methodological guidance			September 2008			Operating costs of the NBS
<b>2.1.9) Securities trading</b>	Securities Stock Exchange – trading system Central Securities Depository – clearing and settlements system	Point 5.1.6)		tests– September 2008 full operation – January 2009			Borne by the Central Securities Depository and securities stock exchange
<b>2.1.10) Recalculating and replacing market indices</b>	NBS and the Association of Banks	contractual continuity and contracts with fixed interest rates	18 months	September 2008	March 2007	June 2007 September 2007 March 2008 September 2008	Operating costs of the NBS and the Association of Banks
<b>2.1.11) Electronic banking</b>	banks	Points 2.1.12), 2.1.3)	2 years	September 2008	June 2006	January 2007 June 2008	Borne by banks

<b>Task</b>	<b>Responsibility</b>	<b>Link to other tasks</b>	<b>Time demands</b>	<b>Fulfillment deadline</b>	<b>Start date</b>	<b>Control dates</b>	<b>Costs</b>
<b>2.1.12) Dual statements, dual pricing of banking services</b>	banks	Act on the Introduction of Euro, setting the period of dual pricing	6 months	July 2008 and 1.1.2009	January 2008	March 2008 June 2008 or December 2008 March 2009	Borne by banks
<b>2.1.13) Amendment to the Act on the NBS</b>	NBS and the Ministry of Finance			force at latest 1.1.2008	July 2005	first working draft April 2006	Operating costs of the NBS and the Ministry of Finance

### **3. Euro Introduction in general government and local authorities**

#### **3.1) Description of the most important tasks**

##### **3.1.1) Conversion of financial information systems**

This will concern primarily the identification of the need for the technical conversion of financial information systems at general government subjects for all fields of general government defined by the Act on Budgetary Rules of General Government, specifically:

1. central administration,
2. territorial local authority administration,
3. social and health insurance funds.

Individual institutions must ensure the transition of their accounting and other financial systems to the conditions for functioning in euro. The Ministry of Finance as the of budgetary policy authority will ensure the conversion of the Budgetary Information System and the State Treasury information system. A special attention must be given to the operation of the State Treasury system in the process of realizing the budget in euro and the system used at the Agency for Debt Management and Liquidity (ARDAL).

##### **3.1.2) Accounting, reporting, taxes, wages**

For accounting purposes it will be fully sufficient when data reported in the financial statements are recalculated as at the end of the accounting period at the conversion rate. Since accounting statements are drawn up for two comparable periods, it is planned that accounting units will be obliged to report the financial statements in euro for 2008. Based on this, tax returns submitted in 2009 will also be in euro.

In 2008 the accounting will be carried on in Slovak korunas, also the non-taxable amount from the tax base, tax allowance etc. will be set in Slovak korunas. The personal and corporate income tax returns for 2008, which will be filed in 2009, will be filed in Slovak koruna. The resulting outstanding payments or refunds will be recalculated to euro at conversion rate and the taxpayer or tax authorities will pay it in euro.

In the field of remuneration of employees in general government, the Ministry of Finance will ensure the recalculation of tariff salaries and wages at the conversion rate as part of the budgetary process.

Procedure in the field of taxes, fees, benefits, pensions and other payments between the citizens and the state will also be conducted pursuant to the principle of not harming the citizen. In cases where the beneficiary of these payments is the citizen, rounding up to 10 euro cents will be used. In payments where the beneficiary is the state, the sum, conversely, will be rounded down to 10 euro cents.<sup>5</sup>

##### **3.1.3) Legislative aspect of the euro introduction in general government**

From the variety of institutions of general government it is clear that this field is very broad. Introduction of the euro as the legal tender will affect the scope of competence of an extraordinarily wide range of institutions and offices. These perform their activities on the basis of legislative regulations which must be prepared and set for using the euro. In the

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<sup>5</sup> This procedure will not apply in cases where payments and receivables in favour of the state have arisen due to a breaching of generally applicable legal regulations (fines, penalties and other payments of a sanction nature). In these cases the procedure will be according to normal rules of rounding (Part I of the document, Point B1 Basic Principles).

process of adopting legal regulations a key role is played by the respective government departments and it is in their competence, based on general instructions according to Chapter 6, to prepare appropriate conditions for adopting the euro.

Legislative changes from the aspect of general government will concern in particular the social field and the general government budget.

### **3.2) List of tasks**

Based on the above principles and recommendations it is necessary for individual general government subjects to perform specific steps for ensuring the conditions for euro changeover in general government. In the classification according to Act No 575/2001 Coll. on the organization of government activities and the organization of central government, and based on Act No 523/2004 Coll. on budgetary rules of general government and on the amendment of certain acts, individual general government subjects will perform the following steps.

#### **3.2.1) Ministries and other central government bodies**

##### **In the legislative field**

- they will by 15 November 2005 review existing legal regulations in their competence with the aim of identifying the ones needing amendment due to the euro adoption in the SR and which fall within the framework of group II of legislative measures (see Chapter 6),
- following this revision they will by 31 January 2006 draw up a schedule for the adjustment of legislative regulations within their competence, each subject's schedule will be different, since it will concern the subject's own specific field,
- they will provide the Ministry of Finance of the SR, Ministry of Justice of the SR, the NBS and the Ministry of the Economy of the SR with full cooperation so that the umbrella law, effective as of 1 January 2008, may be submitted to the Government of the Slovak Republic and the Legislative Council of the Government of the Slovak Republic at latest by 30 June 2007,
- they will submit, in accordance with their schedule, draft acts within group II to the Government of the Slovak Republic and the Legislative Council of the Government of the Slovak Republic, at latest by 31 December 2007,
- based on the prepared schedule they will, in accordance with procedures set in Chapter 6, ensure the necessary amendment to legal regulations so that the legal system in the SR is prepared for the introduction of the euro as the legal tender on 1 January 2009.

##### **In the field of information systems**

- they will by 15 November 2005 review existing financial information systems in their competence requiring adjustment for the euro adoption,
- following this revision they will by 30 April 2006 draw up a plan for the conversion and adjustment of financial information systems, including the steps necessary for ensuring the conversion of financial data contained in information systems, and possibly the adaptation of the information systems functioning,
- based on the plan for the conversion and adjustment of financial information systems by 30 April 2007 they will, in accordance with recommendations pursuant to Part 8, carry out the conversion of the financial information systems,
- the testing phase will last until 31 December 2007. During this phase information systems will be harmonized and shortcomings detected during testing will be resolved,
- will launch the information systems prepared for the euro changeover on 1 January 2009.

Ministries and other central government bodies, which are shareholders or founders of legal persons will oversee within their competence that these companies are prepared for the new conditions ensuing from the euro changeover.

### **3.2.2) Territorial local authority subjects**

#### **In the legislative field**

- they will by 15 November 2005 review existing legal regulations and internal regulations in their competence with the aim of identifying the ones needing amendment for the euro adoption in the SR,
- based on this review they will, in accordance with schedules prepared by ministries and other central government bodies, ensure the necessary amendment to legal regulations so that they are effective by the day of the euro introduction, i.e. on 1 January 2009.

#### **In the field of information systems**

- they will by 15 November 2005 review existing financial information systems in their competence requiring adjustment for the euro adoption,
- following this revision they will by 30 April 2006 draw up a plan for the conversion and adjustment of financial information systems including the steps necessary for ensuring the conversion of financial data contained in information systems, and possibly the adaptation of the information systems functioning,
- based on the plan for the conversion and adjustment of financial information systems by 30 April 2007 they will, in accordance with the recommendations from Part 8, carry out the conversion of the financial information systems,
- the testing phase will last until 31 December 2007. During this phase information systems will be harmonized and shortcomings detected during testing will be resolved,
- will launch the information systems prepared for the euro changeover on 1 January 2009.

### **3.2.3) Social Insurance Company and the health insurance companies**

- they will by 15 November 2005 review existing financial information systems in their competence requiring adjustment for the euro adoption,
- following this review they will by 30 April 2006 draw up a plan for the conversion and adjustment of financial information systems including the steps necessary for ensuring the conversion of financial data contained in information systems and possibly the adaptation of the information systems functioning,
- based on the plan for the conversion and adjustment of financial information systems by 30 April 2007 they will, in accordance with the recommendations from Part 8, carry out the conversion of the financial information systems,
- the testing phase will last until 31 December 2007. During this phase information systems will be harmonized and shortcomings detected during testing will be resolved,
- will launch the information systems prepared for the euro changeover on 1 January 2009.

### **3.2.4) All general government subject**

- will ensure in their competence the conversion of forms, stamps and vouchers:
  - used by all offices and institutions in general government (tax authorities, customs authorities, printed forms of local authority offices, etc). For the field of general government, as defined by the Act on General Government Rules No 523/2004 Coll.:
    1. central government – responsible Ministry of Finance + the respective ministry
    2. territorial local authority – Ministry of the Interior
    3. Social Insurance Company and health insurance companies – the respective institution
    4. businesses (partially) owned by the state – responsible Ministry of the Economy + the respective ministry

- any other printed forms in which financial values are stated, instruments used in post payments (the respective ministry), to ensure the withdrawal of issued printed forms and in particular stamps and vouchers from circulation.

Individual subjects of the general government sector will cover costs connected with the euro changeover from the expenditure limits approved in the budget for 2005 to 2007. In 2008 expenditures for the euro changeover will be covered in the limits set by the general government budget for the years 2006 to 2008.

## **4. Consumer protection during the euro changeover and its impact on citizens**

### **4.1) Description of the most important tasks**

#### **4.1.1) Protecting the consumer against unjustified price consequences of the currency changeover, including rules on the conversion of prices to euro and dual pricing**

With the aim of facilitating and simplifying the euro changeover for citizens, as well as for protecting consumers against unjustified price consequences of the conversion of prices to euro, the Ministry of Economy of the SR will prepare a “White Paper on Consumer Protection in the Introduction of the Euro in the SR” by 31 December 2006. This paper will be based on the basic principles of euro changeover in the SR and will formulate the instruments for solving citizen/consumer protection in the euro changeover, including proposals for legislative amendment.

In preparing the white paper practical experience from other member states will be used and consumer associations will also be involved in its preparation so that requests and suggestions of the consumer public are taken into account. In accordance with the scenario of the simultaneous euro introduction in cash and non-cash payments, without a transition period, it is essential to set clear rules in the conversion process for ensuring sufficient consumer protection. Trust and safety among citizens will be strengthened via a legal framework. An extraordinarily sensitive point is also the preparation of citizens for this significant event.

#### **4.1.2) Dual pricing**

Dual pricing means the expression of financial values in koruna as well as in euro, or reporting financial amounts in parallel in both currencies. Dual pricing forms one of the pillars building safety among citizens. For traders (in both the retail and wholesale sector) and service providers dual pricing will mean good preparation for the new currency and it will also facilitate the adaptation to the new situation for citizens. Practical aspects of dual pricing will be explained to citizens within the information campaign. For a proper introduction of the system into practice the following legal rules will be set:

- **the obligation of dual pricing and display and the duration of this obligation**

Dual pricing and display will be introduced as compulsory at latest 1 month following the setting of the conversion rate. This obligation will last until 12 months following the euro introduction.<sup>6</sup> Dual pricing will be required everywhere where a financial amount, price or value in the domestic currency is stated for the citizen. It will relate to all prices of goods and services, values of financial amounts on accounts, invoices, banking services, budgeted expenses, consumer loans, miscellaneous payments, wages, social benefits, citizens’ account statements, etc. Likewise it will also concern all cases where goods, price offers, catalogues, advertisements, offered services, etc. are displayed. The dual pricing obligation will apply to both legal and natural persons.

Closely related to dual pricing is dual display, which represents the provision of information to the citizen, where the manner of dual display in individual specific cases will be different, depending on the type of good or service provided. In the case of dual display the data in euro will be merely informative until 1 January 2009. This requirement

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<sup>6</sup> Following the end of the compulsory dual pricing and display entrepreneurs will be advised to continue on a voluntary basis in this system further 6 months.

results from the need to prepare citizens/consumers for the gradual re-orientation, where they come to think in euro. Following the euro introduction, display in Slovak koruna will be merely of an informative nature. The reason for this is faster and more effective control of any possible unjustified price increases. Commencement and termination of compulsory dual display will be done at a single date for all cases of its application.

- **manner of dual display**

The manner of dual display in individual cases will be chosen so that from the dual stated data it can be clearly discerned which data is merely informative and in which currency payment is expected. The aim is to provide the citizens with transparent information so that they are not confused by a large quantity of data provided, or are not misled as to the price or payment, but also so that the citizens can more easily visually detect the information. (For example price tags on shelves will show both currencies. Prior to the euro introduction the price in koruna will be emphasized, and beside it the informative euro price. Following the euro introduction the opposite will apply.).

It is important that the dual display requirement does not involve significant costs in the business sector and that it meets expectations on the side of the citizen. It is therefore necessary to design simplified common formats, patterns and guidance for individual subjects in stating dual price data. In the law all manners of dual display will be stated explicitly, including the ones subject to special rules.

- **special rules for dual display for features specific to a sector or profession**

With regard to the variety of economic activities and also based on the practical possibilities for dual display, special rules will apply in some cases. This concerns in particular the sales of certain types of goods (books), sales with attendance (petrol stations) or certain services (taxi services, travel agency services and the catering industry, etc.), professional services (doctor's appointment fee, notary fees, etc.), post stamps, duty stamps, sales via a catalogue system, vending machines, pubs, electronic cash registers, account statements, documents in the payment system, travel tickets, fees, etc. These cases will be specified in law, including a designation of the manner for dual display (for example that information on the transfer of money must be displayed at places clearly visible for customers, or conversion tables with dual prices be displayed – e.g. the petrol price per liter in euro, or the conversion of one currency to the other is clearly displayed at cash registers – or data on the conversion is stated directly on documents). Electronic registers must give dual pricing of the final sum, though vendors may also voluntarily use dual prices for individual items.

- **recalculation of prices**

The law will lay down that in calculating individual price data according to the conversion rate and subsequently in rounding to the nearest cent in accordance with guidance, businesses are given the possibility to voluntarily round data in favor of the citizen.

- **monitoring of price development and control activities**

Monitoring of the development of prices and control activity is aimed at limiting in particular at the start of the euro introduction the price increases for goods and services due to the currency changeover. Regarding monitoring of price development, it is desirable that the law lays down competences for performing monitoring, examining the composition of the price at business subjects, based on consumer suggestions, whether a price has increased due to the currency changeover and whether fair economic competition has been retained, as well as to specify competences for quick remedy, including the possibility of sanctions and the adoption of measures. The aim is to ensure, during dual pricing, the arrangement of a remedy, if it is found that the situation cannot be corrected by market measures (e.g. introduction of an economically appropriate price). As

regards the ensuring of monitoring and control, the law will lay down obligations for businesses and professional organizations to provide the relevant information.

Consumer protection requirements will be a component of the umbrella law. The law will be effective at latest by 1 January 2008 so that the business sector has sufficient time for preparation.

Control obligations as well as sanctioned measures and monitoring aimed at the development of prices related to the euro changeover will similarly be treated by the umbrella law, therefore it will not be necessary to amend other laws (e.g. Act No 128/2002 Coll. on state control of the internal market in consumer protection matters). The adoption of the single summary umbrella law will enable an effective solution both for the consumers as well as the businesses.

Based on the competences given in the law a respective supervisory body will prepare methodological instructions for performing control checks and training regional inspectors. In the period from 1 January 2008 to 31 June 2008 the Ministry of the Economy of the SR in cooperation with the Ministry of the Interior of the SR and the Ministry of Finance of the SR will organize training on dual pricing and on the conditions of euro introduction from the aspect of consumer protection for local authorities. The aim will be to ensure effective control in the case of sales at market places and in the provision of local services. Over this period the Ministry of the Economy of the SR will also organize training sessions for consumer associations and in cooperation with the Ministry of Justice of the SR also training sessions for mediators.

- **dual circulation**

Following the euro introduction on 1 January 2009 it will remain possible for a short period of dual circulation to pay at shops with koruna banknotes and coins. During this period traders and service providers will have to accept payments in both currencies, though Slovak koruna will be withdrawn and change given out only in euro. It will therefore be necessary to issue guidelines for this period so that shops do not become exchange offices.

#### **4.1.3) Bills and invoices**

The abovementioned manner of consumer protection will also apply to dual currency display on bills and invoices for consumers (e.g. electricity, water, gas, rent, etc.) and the income part, as well as to consumer loans. A uniform system will provide the consumer with information in the dual regime both on expenditures and incomes, with the same date of the start and end of the period of providing dual information. In the context of dual display it will be important to focus the information campaign so that it is not concentrated solely on the expenditure field, but also on the income side, for the reason of a re-orientation in thinking in euro both in the income part as well as in the expenditure. Therefore the same dual pricing requirements are placed also on citizens income component (such as employees' pay slips, pension payments, social benefits, bank statements, etc.).

#### **4.1.4) Dispute resolution**

Following approval of the Changeover Plan by the Government of the SR the Working Committee for the Non-Financial Sector and Consumer Protection will be established by the Ministry of the Economy of the SR. Based on results from control bodies, monitoring of price development, as well as complaints and suggestions from citizens the Committee will supervise consumer protection from the aspect of compliance with the Act on the Introduction of the Euro. It will also prepare for the minister and the National Coordination Committee drafts of necessary realization measures for achieving the objectives of the law, a stable price development and will draw up recommendations with the aim of removing misunderstandings highlighted by citizens complaints. In fulfilling its task the Committee may invite competent

representatives or experts. The Committee will not examine disputes connected with the euro changeover. Citizens complaints will be received and administered at an independently established workplace and advisory services and information will be provided to citizens from the aspect of consumer protection. Information will be provided free of charge. Procedures will be in accordance with given competences regarding the issues covered by the umbrella law.

A citizen will be able to resolve individual disputes in the euro introduction out of court in accordance with applicable legislation pursuant primarily to Act No 420/2004 Coll. on mediations and Act No 244/2004 Coll. on arbitration proceedings. Besides this, the citizen may also resolve a dispute via the courts. Consumer associations pursuant to Act No 634/1992 Coll. on consumer protection may mediate dispute resolution in the case of claims and complaints.

#### **4.1.5) Control**

The law will govern control responsibilities of individual supervisory bodies performing oversight over compliance with dual pricing and display, information obligations and requirements for the euro changeover, including penalties and sanctions. Control and monitoring of price development, publication of the price level in the period from the start of 2008 to the end of compulsory dual pricing will also be covered by the law. According to technical possibilities monitoring of the price development will be done using a limited basket of consumer goods (most frequently purchased consumer items) in cooperation with the Statistical Office of the SR and the NBS, and the results will be published on a regular basis. Details will be set in the respective law. Civil and consumer associations will be engaged in the process of monitoring prices and price development on a voluntary basis.

Supervisory bodies authorized to perform controls will prepare methodological handbooks for their inspectors and control plans at least 6 months prior to the euro introduction. Staff responsible for preparing handbooks and control plans (methodology officers) of individual control bodies must be trained by the law authors at least 9 months prior to the euro introduction. Control bodies defined by the umbrella law will set up, shortly before the start of compulsory dual pricing, a telephone line and e-mail address to which citizens can post all cases of breaching of their rights during the euro changeover. Control bodies will state on their website telephone numbers and the e-mail address of other control bodies so that the consumer knows which body to turn to with his/her complaint, suggestion, etc. The affected control bodies will submit reports on the results of their control in the second half of 2009 to the Working Committee for Non-Financial Organizations and Consumer Protection. A joint report will be submitted to the Government by the Ministry of the Economy of the SR, prepared by the Working Committee. Following discussion in Government the information will be made accessible to the public both on a website and in mass media. During the period of compulsory dual pricing information on control results will also be regularly brought to the attention of all parties involved, which should encourage compliance with requirements imposed by the law so that these parties do not suffer harm from negative publicity upon the publication of results.

#### **4.2) Procedure in protecting consumers and citizens during the euro changeover**

##### **1. Provision of relevant information to consumers**

- **2008:**

ensuring information boards are displayed in shops, market places, at service providers, post offices, banks, information places in local authority buildings, clinics, pharmacists.

- **2007 - 2008:**

ongoing training and provision of current information for consumer associations, local authorities on dual pricing requirements and the conditions of the euro introduction (sales at market places and local services).

- **by 31.12.2008:**

training for controllers, information providers for the out-of-court resolution of disputes concerning the protection of consumer rights in the case of the euro introduction.

- **2008 – 2009:**

publication of the results of controls of compliance with rules for the euro introduction, price monitoring – results of monitoring prices will be published regularly in the press and on websites.

## **2. Protecting consumers economic interests in the euro changeover**

From the aspect of protecting consumers' economic interests it is necessary to focus on:

- commercial services and all forms of sales,
- financial services,
- other services (telecommunications, internet, distance sales, personal and craft services...),
- wages, pensions, social benefits,
- services in the public interest (transport, heat, electricity, water, sewerage),
- medicines, health care,
- compliance with the principles of recalculation for dual pricing and rounding in recalculation.

## **3. Checking compliance of consumer protection requirements in the euro changeover**

- The Working Committee for the Non-Financial Sector and Consumer Protection will oversee compliance with consumer protection requirements and propose measures necessary for solution.
- Control activity will be performed in accordance with competences governed by the umbrella law on the introduction of the euro in the SR (control duties of individual supervisory bodies to perform supervision over compliance with display, information obligations, dual pricing and requirements for euro introduction, including fines and sanctions).
- E-mail addresses and telephone lines will be set up at control bodies for consumers to notify breaches of their rights.
- A report on the result of controls and measures taken will be submitted to the Government of the SR.

## **4. Dispute resolution**

- Via an out-of-court settlement.
- Mediators pursuant to Act No 420/2004 Coll. on mediations by persons trained for this activity.
- Via the courts.
- Consumer associations pursuant to Act No 634/1992 Coll. on consumer protection may mediate the resolution of disputes.

### 4.3) List of tasks

Task	Responsibility	Time demands	Fulfillment deadline	Start date
<b>4.1.1) Protecting the consumer against unjustified price consequences of the currency changeover, including rules on the conversion of prices to euro and dual pricing</b>				
1. Preparation of a White Paper	Ministry of the Economy SR	18 months	December 2006	July 2005
2. Preparation of an umbrella law on the introduction of the euro	Ministry of Finance SR and the NBS in cooperation with the Ministry of the Economy SR		December 2007	July 2005
<b>Information sources</b>				
1. Ensuring information boards on dual pricing requirements	Ministry of the Economy SR, associations and societies	6 months	June 2008	January 2008
2. Training of consumer associations, local authorities and mediators	Ministry of the Economy SR, associations and societies	12 months	December 2008	January 2008
<b>4.1.2) Dual pricing</b>				
1. Training of staff in shops, services for identifying the authenticity of banknotes and coins	NBS and banks	6 months	December 2008	July 2008
2. Setting up a telephone line and e-mail address for consumers complaints	control bodies, Government Office of the SR / Ministry of the Economy SR	4 months	August 2008	May 2008
3. Control of compliance with the dual pricing conditions	control bodies	18 months	December 2009	July 2008
<b>4.1.5) Control</b>				
1. Training of staff of control bodies regarding the law on the introduction of the euro	Ministry of the Economy SR, Ministry of Justice SR	3 months	March 2008	January 2008
2. Processing of methodological handbooks for the performance of controls and training of inspectors	control organizations mentioned in the law	6 months	June 2008	January 2008
3. Reports from control of compliance of dual pricing conditions	Ministry of the Economy SR in cooperation with control bodies,	24 months	August 2010	August 2008

## **5. Euro changeover in the business sector**

### **5.1) Description of the most important tasks**

#### **5.1.1) Prices of goods and services and dual circulation**

Euro changeover will make it necessary to recalculate from koruna to euro retail prices of all goods and services on the market in the Slovak Republic within one month after the conversion rate is set. After the euro introduction it will be necessary to recalculate prices from euro into Slovak koruna during the period of compulsory dual pricing. Vendors and service providers must be prepared for compulsory dual pricing and display. From 1 January 2009 they must, in the framework of dual circulation, be prepared to accept Slovak koruna and to give out change in euro.

Business subjects in trade and services are advised to gradually prepare for fulfilling these obligations. Transition to the euro should be supported by distribution of conversion calculators and professional assistance in fulfilling legal obligations resulting from the euro introduction.

#### **5.1.2) Dual pricing and display**

The system described in Part 4.1.2) is relevant from the aspect of the business sector as well from that of consumer protection.

To safeguard the system it will be desirable to prepare technical equipment for the obligations in the business sector. This means, for example, that many technically obsolete cash registers installed in particular in small outlets will have to be replaced. It will also be necessary to provide the software for electronic cash registers for recalculating prices and totals and rounding, and for issuing a receipt to the consumer. For dual display the conditions must be prepared in individual outlets.

One of the options for facilitating this process for the business sector is to distribute to small vendors calculators for converting prices and values into euro and back from euro into koruna. These calculators may be distributed, for example, while conducting educational activities, where the calculators will be given out free and the costs for their purchase will be covered by the respective ministry budgetary chapter.

#### **5.1.3) Education activities**

A successful euro changeover will depend on how business subjects in trade and services, as well as in supplier-customer relations, cope with tasks connected with the euro introduction, in particular the conversion of retail prices, dual pricing and display and the information strategy and price stability, etc. An important factor in this success is the involvement of staff at all levels of management of business activities.

A system of education focusing on the legal framework for euro adoption will contribute to improved involvement in the new currency. An additional form of education will be an ongoing provision of up-to-date information from the side of the Ministry of the Economy of the SR and via professional organizations. To avoid negative effects of the currency it will be necessary to train cash handlers on counterfeit euro detection.

#### **5.1.4) Defining the scope and need for technical conversion of information systems in the non-financial organizations sector**

An integral component of running a business are information systems, which have a support function for most processes occurring in businesses. Euro introduction makes it necessary to

identify (examine), plan and implement all changes in a business information technology. The technical re-denomination of Slovak koruna to euro will involve:

- assessing the usability of software,
- verifying hardware capacity,
- adapting and purchasing software.

This concerns in particular accounting and analytical software applications.

These changes must take account of the requirements resulting from changes in the financial management processes of businesses, sales, purchases and the law. In the system of payments changes will concern the accounting of invoices, as well as the cash circulation in electronic cash registers, where the scope of changes will be proportional to the size, organizational structure and existing scope of information technology support in firm processes.

#### **5.1.5) Rules for the recalculation and rounding of prices and items in accounting**

Accounting and the financial statements must be in koruna for 2008 and in euro for 2009. To be able to compare accounting statements, the financial statements for 2008 must be recalculated to euro according to the official conversion rate. This obligation will be laid down by the umbrella law on the introduction of the euro in the SR. The rules are described in more detail in Part 3.1.2).

#### **5.1.6) Recalculating registered capital and asset shares**

At present the registered capital of a large majority of companies in the SR is denominated in koruna. Registered capital as well as individual shares (stocks, private limited company business shares, cooperative shares) will have to be recalculated to euro. In accordance with the respective regulations of the EU Council coming into force in the Slovak Republic, registered capital values and shares will be deemed values in euro.

The major issue is the recalculation of asset securities, where the value of one share (e.g. a stock) and the total value of the shares (e.g. registered capital) are set independently of one another. In the case of an independent recalculation and rounding of the value of registered capital and of the values of individual shares, the converted value of the registered capital could differ from the total of the rounded converted values of individual shares.<sup>7</sup> In recalculating individual shares, rounding with greater precision is possible, up to 4 - 6 decimal places, so that the recalculated value of the registered capital equals the sum of the recalculated values of individual shares.

A further problem is the adjustment of the minimum level of registered capital and the value of equity and business shares in euro. At present these values are “round” numbers in koruna (for example the value of a partner contribution in a private limited company must be divisible by 1000), which, however, will no longer apply in the case of recalculation at the conversion rate. Threshold values in euro will be reset, analogous to the minimum registered capital for a joint-stock company set at EUR 20 000 in the Commercial Code, which roughly corresponds to 1 million koruna for companies with registered capital set in koruna.

The rules for the recalculation of registered capital and shares and the procedure in their recalculation and in changing entries in the Commercial Register will be set by the Ministry of Justice of the SR in cooperation with the respective ministries by 31 December 2005, while respecting the principle of contract continuity.

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<sup>7</sup> This problem is the greater, the lower the nominal value of one share. For example, a share with a nominal value of SKK 1 may, following recalculation and depending on the value of the conversion rate, be rounded to 2 or 3 cents, where the rounding error may be as much as 25% of the total value.

### **Influence of the euro introduction on business accounting and reporting**

A smooth changeover to the single currency requires that firms are able to operate in euro for internal and external purposes as of the date of the currency introduction . Business managers must adapt firm operations to the altered conditions which the euro introduction will bring about.

The aim is to minimize the risk of businesses being unprepared, since unprepared firms following entry to the eurozone will not be able to legally carry on business.

In these circumstances the euro changeover in the business sector requires:

- The re-evaluation of key processes at individual firms for the conditions of the altered strategy in the field of financial operation, purchases and sales and the identification of related changes.
- Based on the specific changes concerning financial operation, purchases and sales, the identification of potential risks and proposal of measures for eliminating these risks (on the principle of maintaining continuity):
  - commercial, in particular interest-rate, monetary and also liquidity and creditworthiness risk in relation to changes in the financial operation of a business,
  - technical and organizational risks connected with flexibility, capacity and re-denomination errors,
  - strategic risks, in particular capital investment, risks relating to competitiveness and also the adjustment of contracts and cooperation relations.
- Changes in financial operation processes will bring about changes in the exchange rate field. Adaptation to these changes will to a large extent be influenced by the size, legal form, field of economic activity of firms and their degree of capitalization. Therefore from the procedural aspect these changes must be planned, feasible and controllable. These changes will affect the activities performed within one accounting unit, the consolidation of accounts to the target account and the clearing of account balances of individual firm accounting units, that is, they will affect the internal processes of a business and its contacts with contractual partners.

In this case it includes accounting, where financial operation processes must be planned both at the level of the one accounting unit, as well as at several accounting units (cases of branches, subsidiaries and joint ventures). This means that changes in accounting, consolidation and clearing must be carried out in a coordinated manner.

The results of a currency risk analysis will bring about changes in the financial strategy for liquidity management and investment. In relation to the effects of strategic (and technical) re-denomination, this requires the adjustment, cancellation or establishment of new contractual relations between the business and contractual partners (a bank or other financial institution). In practice this means:

- a reduction in the number of koruna accounts,
- a re-evaluation of currency operations, i.e. performing currency risk analysis,
- a re-evaluation of suppliers prices,
- the adjustment, cancellation, creation of new cooperation - contracts,
- an assessment of the advantages and disadvantages of buying in euro,
- a reassessment of sales prices,
- a reassessment of sales and advertising materials, packages, etc.

In the field of technical re-denomination, which is connected with performing activities concerning recalculation at the fixed exchange rate in accounting, accounting records and forms, this will mean:

- a reassessment of the suitability of methodology and accounting procedures used

- the conversion of the value of assets and liabilities at the fixed exchange rate to euro,
- reassessment of the suitability of forms and accounting records,
- taking care of the technical side: a reassessment of suppliers prices, sales prices, sales and advertising materials, packages, etc.,
- invoicing.

## 5.2) List of tasks

1. To draw up an informative leaflet for business subjects, explaining the euro issues in commercial contracts, on the basis of which appropriate (realistic, optimal) decisions will be taken at the level of the business sector, not inducing legal uncertainty.  
Responsible: Ministry of the Economy of the SR  
Deadline: 30 June 2006
2. To draw up an analysis of the options and need to provide a legislative framework affecting and simplifying the solution of the re-denomination of shares and thereby also the procedure of shareholders (partners) towards maintaining legal certainty and reaching rounded re-denominated nominal share values.  
Responsible: Ministry of Justice of the SR in cooperation with competent ministries  
Deadline: 31 December 2005
3. To draw up reports on the influence of introducing the single currency on the development of the business cycle of the Slovak economy at the level of macroeconomic relations (in particular competitiveness) and microeconomic relations (in particular the management of firms, maintenance of competitive position, or the functioning and viability of businesses).  
Responsible: Ministry of the Economy of the SR  
Deadline: 30 September 2009
4. To draw up an analysis of the impact of the euro changeover on the development of consumer prices in the retail and services sector.  
Responsible: Ministry of the Economy of the SR  
Deadline: 30 September 2009
5. To process information on the impacts of euro introduction on business activities in trade and services.  
Responsible: Ministry of the Economy of the SR  
Deadline: 30 September 2009

## **6. Legislative requirements for the euro changeover**

### **6.1) Description of the most important tasks**

The aim of the legislation is to introduce the euro as the legal tender in the Slovak Republic and for this purpose to adopt an integrated system of generally binding legal regulations in individual fields of the legal code of the Slovak Republic. This will primarily concern a declaration of the continuity of rights and obligations following the replacement of one currency by another with a new name. Such a monetary succession occurred in Slovakia twice in the 20<sup>th</sup> century, under democratic circumstances. First in 1919 following the currency separation of the Czechoslovak koruna from the Austro-Hungarian koruna, and in 1993 following the currency separation of the Slovak koruna from the Czechoslovak koruna.

#### **6.1.1) Method of harmonizing Community legislation on the euro introduction**

Legislation of the European Communities/European Union on the euro introduction is formed primarily by three Community/EU regulations, including their amendments, which are secondary source of law of the European Community/European Union and which will be directly effective and binding in the territory of the Slovak Republic from the date of the euro introduction. Therefore it is not necessary to transpose them directly into the legal code of the Slovak Republic.

Specifically, this concerns the following regulations:

1. Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro as amended by Council Regulation (EC) No 2595/2000 of 27 November 2000.  
OJ L 162, 19/06/1997 P. 0001 – 0003  
OJ L 300, 29/11/2000 P. 0001 – 0001
2. Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro as amended by Council Regulation (EC) No 2596/2000 of 27 November 2000.  
OJ L 139, 11/05/1998 P. 0001 – 0005  
OJ L 300, 29/11/2000 P. 0002 – 0003
3. Council Regulation (EC) No 2866/98 of 31 December 1998 on the conversion rates between the euro and the currencies of the Member States adopting the euro as amended by Council Regulation (EC) No 1478/2000 of 19 June 2000.  
OJ L 359, 31/12/1998 P. 0001 – 0002  
OJ L 167, 07/07/2000 P. 0001 - 0001

These regulations are generally binding legal acts and are binding in all parts and also directly applicable in the Slovak Republic. Due to the nature of this legal act it is prohibited to literally insert the text of the regulation into the national legal code; only necessary implementation measures are explored.

**Regulation (EC) No 1103/97** on certain provisions relating to the introduction of the euro stipulates that the reference in legal instruments to the European currency unit (ECU) will be read as a reference to the euro (Article 2). This Regulation also contains the principle of contract continuity and continuity of legal instruments (Article 3). Besides this, the Regulation lays down the modalities for recalculation from the euro to national currencies and vice versa, as well as individual provisions for rounding up and down (Articles 4 and 5).

**Regulation (EC) No 974/98** on the introduction of the euro contains other, primarily monetary and legal, provisions for the member states that are not a part of monetary union. At first these participant states are nominated. Subsequently the Regulation (in Articles 2 to 4) governs the replacement of the currencies of the participant states by the euro. In Articles 5 to 9 other transitional provisions are laid down for the period from 1 January 1999 to (at latest) 31 December 2001. Articles 10 to 12 contain the legal basis for issuing euro banknotes and euro coins. Articles 13 to 16 contain measures for the period from the completion of the transitional period.

**Regulation (EC) No 2866/98** contains two articles and its essence is the expression of the conversion rate of individual member states acceding to the euro. The second article gives the force of the regulation.

The three EC/EU Regulations form the legislative basis of the Community legislation on the introduction of the euro. However, other generally binding legal acts of the EC/EU also form a component of Community legislation on the euro, where these will be directly applicable in the Slovak Republic, and which must be taken account of and respected in preparing and realizing implementation measures removing any legal barriers and creating the legal conditions for the euro introduction in the Slovak Republic.

This concerns specifically the following generally binding legal acts of the EC/EU

1. Council Regulation (EC) No 975/98 of 3 May 1998 on denominations and technical specification of euro coins intended for circulation as amended by Council Regulation (EC) No 423/1999 of 22 February 1999.  
OJ L 052, 27/02/1999 P. 0002 – 0003  
OJ L 181, 04/07/2001 P. 0006 - 0010
2. Council Regulation (EC) No 1338/2001 of 28 June 2001 laying down measures necessary for the protection of the euro against counterfeiting.  
Ú. v. ES L 181, 04/07/2001 P. 0006-0010
3. Council Framework Decision of 29 May 2000 on increasing protection by criminal penalties and other sanctions against counterfeiting in connection with the introduction of the euro (2000/383/JHA) as amended by the Council Framework Decision of 6 December 2001 (2001/888/JHA).  
OJ L 140, 14/06/2000 P. 0001 – 0003  
OJ L 329, 14/12/2001 P. 0003 - 0003
4. Council Decision of 6 December 2001 on the protection of the euro against counterfeiting (2001/887/JHA).  
OJ L 329, 14/12/2001 P. 0001 - 0002
5. Decision of the European Central Bank of 6 December 2001 on the issue of euro banknotes (ECB/2001/15) (2001/913/EC) as amended by Decision of the European Central Bank of 18 December 2003 (ECB/2003/23) (2004/49/EC) and as amended by Decision of the European Central Bank of 22 April 2004 (ECB/2004/9) (2004/506/EC).  
OJ L 337, 20/12/2001 P. 0052 - 0054  
OJ L 009, 15/01/2004 P. 0040 – 0041  
OJ L 205, 09/06/2004 P. 0017 - 0018

6. Decision of the European Central Bank of 20 March 2003 on the denominations, specifications, reproduction, exchange and withdrawal of euro banknotes (ECB/2003/4) (2003/205/EC).  
OJ L 078, 25/03/2003 P. 0016 - 0019
7. Decision of the European Central Bank of 14 December 2004 on the approval of the volume of coin issuance in 2005 (ECB/2004/19) (2004/899/EC).  
OJ L379, 24/12/2004 P. 0107-0107
8. Decision of the European Central Bank of 8 November 2001 on certain conditions regarding access to the Counterfeit Monitoring System (CMS) (ECB/2001/11) (2001/912/EC).  
OJ L 337, 20/12/2001 P. 0049 - 0051

### **6.1.2) Method of harmonizing the Commission's on the euro introduction**

The issue of the euro introduction in member states is also the subject of recommendations by the EC/EU, these however are not of a binding nature (neither binding, nor normative) and need not be transposed into the legal code of the Slovak Republic. Their purpose is primarily to recommend certain behavior without actually legally binding the addressees. They cannot be enforced via the courts.

This concerns for example the Commission Recommendation No 287/98 of 23 April 1998 on the dual display of prices and other amounts, Abl. 1998 L 130

### **6.1.3) Draft generally binding legal regulations for selected fields and their identification**

The identification of problems in the legal code of the SR relating to the introduction of the euro as the legal tender in the Slovak Republic and which at the same time need to be resolved by legislation will be classed into three main groups of legislative measures:

#### **Group I**

This group will cover legislative problems of a general nature in the legal code of the Slovak Republic, which will be solved by way of a "general (umbrella) law", entitled the Act on Certain Measures Relating to the Introduction of the Euro as the Legal Tender in the Slovak Republic, including related amendments of key laws concerning the euro introduction as the legal tender in the Slovak Republic (e.g. converting funds in bank accounts from Slovak koruna to euro, converting securities issued in Slovak koruna into securities denominated in euro),

The umbrella law will contain a general provision on the changeover of the Slovak currency to the euro. The law will also include the principles of euro introduction in the SR, i.e. a provision on the replacement of the Slovak currency by the euro.

The purpose of the umbrella law is also to support an orderly transition in the currency changeover. The requirement for an orderly transition of the currency changeover must be understood in the sense of ensuring legal clarity and legal certainty. The currency transition should be homogeneous and transparent so that every citizen has the opportunity to obtain the necessary information and can behave and act having trust in this information.

The umbrella law must contain in particular:

- a general provision on the changeover of the Slovak currency to the euro,
- the manner of recalculating the Slovak currency to euro,
- rounding rules,
- dual pricing rules,
- possible authorizing provisions,

- control and supervision, for example in the field of monitoring prices and in the field of dual pricing.

### **Group II**

By day of euro introduction in the Slovak Republic on 1 January 2009 it will be necessary to solve also other important issues in individual laws of the Slovak Republic and in other generally binding legal regulations of the Slovak Republic, where this will be done by new legislation or amendment to existing legislation (e.g. identification of laws and other legal regulations, the major part of which comprises amounts stated in Slovak koruna) - a significant part of these regulations will be laws from the field of financial law, though also codices such as the Criminal Act will also be amended with regard to the imposition of financial punishments, or the Commercial Code in connection with law on commercial companies are (e.g. conversion to euro in the case of registered capital, shares in the registered capital, financial funds, reserves, adjusting entries, liabilities, receivables and other asset values denominated in Slovak koruna). Amendments will also be important in regulations governing social and labor relations, e.g. the Act on Social Insurance, the Labor Code or the Act on Travel Fares.

The Ministry of Justice of the SR in cooperation with Ministry of Finance of the SR, Ministry of Economy of the SR and NBS will prepare a schedule for adjustment of these legal regulations after a revision of existing legal regulations (point 3.2.1).

### **Group III**

The third group of acts is illustrated only with examples and will be composed of laws which will be amended on an ongoing basis from 1 January 2009 onwards. These will be legal regulations which will be only marginally affected by the currency changeover. It is not essential to amend them immediately after the euro introduction; their adjustment will be solved within other amendments. They include, for example, legal regulations containing only a small part of provisions with references to Slovak koruna, where essentially the issue would be solved by the general provisions of the umbrella law.

This group of regulations will include also legal regulations of lesser legal force, e.g.:

- government regulations,
- decrees, edicts and measures of ministries and other central government bodies,
- legal regulations issued at the local level (generally binding decrees of local general government bodies and generally binding regulations of municipalities, towns and upper-tier territorial units).

Regarding the introduction of the euro as the legal tender in the Slovak Republic it is necessary to mention that several EU member states which have introduced the euro currency have an umbrella (general) law on measures relating to the introduction of the euro as the legal tender in these member states, while some EU member states which have introduced the euro do not have such an umbrella (general) law.

Nevertheless the umbrella law on certain general measures relating to the introduction of the euro as the legal tender in the Slovak Republic is necessary, because it will efficiently introduce and amend certain measures of a general nature.

#### **6.1.4) Schedule for adopting laws introducing the euro in the SR**

Deadlines in the progress of work have to pay regard to the length of the legislative process, from drawing up a specific draft act to its approval in the legislative body.

Preparation of acts will involve the respective departments (ministries, other central government bodies or public authorities). The umbrella law (the Act on Certain Measures Relating to the Introduction of the Euro as the Legal Tender in the Slovak Republic) will be prepared by the Ministry of Finance of the Slovak Republic, the Ministry of Justice of the

Slovak Republic, the National Bank of Slovakia and the Ministry of the Economy of the Slovak Republic as the respective institutions pursuant to the Competence Act and the Act on the National Bank of Slovakia. Responsibility for drawing up other acts will involve the respective ministries, other central government bodies, or public authorities.

The legislative process has to consider the schedule for the submission of acts for approval to the Government of the Slovak Republic and for other constitutional discussion:

1. The umbrella law must be prepared so that it enters into force on 1 January 2008 and a part of the provisions on 1 January 2009. It will be necessary for this draft to be submitted to the Government of the Slovak Republic and the Legislative Council of the Government at the Slovak Republic at latest by 30 June 2007.
2. Draft legal amendments in group II must enter into force on 1 January 2009, i.e. they must be submitted to the Government of the Slovak Republic and its Legislative Council at latest by 31 December 2007.
3. Draft amendments to legal regulations in the third group will be prepared at future times as needed.

## 6.2) List of tasks

Tasks will be executed within the individual budgetary chapters of ministries and other central government bodies. With regard to the fact that legislative activity in this case has a cross-sectional nature, affecting almost all the areas engaged in drawing up the National Euro Changeover Plan for the Slovak Republic, individual tasks will be performed within the budgetary chapters.

Group	Act	Responsible institution	Date for fulfilling the task
I.	<p>Act on Certain Measures Relating to the Introduction of the Euro in the Slovak Republic (Act on the Euro), a part of which will be the amended</p> <ul style="list-style-type: none"> <li>• Act of the National Council of the Slovak Republic No 566/1992 Coll. on the National Bank of Slovakia as later amended</li> <li>• Act No 483/2001 Coll. on banks and on the amendment to certain acts as later amended</li> <li>• Act No 510/2002 Coll. on the system of payment and on the amendment to certain acts as later amended</li> <li>• Act of the National Council of the Slovak Republic No 202/1995 Coll. Foreign exchange Act and the Act amending Act of the Slovak National Council No 372/1990 Coll. On criminal offences as later amended</li> <li>• Act No 429/2002 Coll. on the securities exchange as later amended</li> <li>• Act No 530/1990 Coll. on bonds as later amended</li> <li>• Act No 566/2001 Coll. on securities and investment services and on the amendment to certain acts (Act on Securities)</li> <li>• Act of the Slovak National Council No 310/1992 Coll. on the building society savings</li> <li>• Act No 80/1997 Coll. on the Export-Import Bank as later amended</li> <li>• Act No 747/2004 Coll. on the financial market supervision and on the amendment to certain acts</li> <li>• Act No 95/2002 Coll. on insurance industry and on the amendment to certain acts as later amended</li> <li>• Act No 381/2001 Coll. on the mandatory third-party liability motor vehicle insurance and on the amendment to certain acts as later amended</li> <li>• Act No 594/2003 Coll. on collective investment and on the amendment to certain acts as later amended</li> </ul>	<p>Ministry of Finance SR, Ministry of Justice SR, the NBS and the Ministry of the Economy SR</p>	<p>Effect and force on 1 January 2008, a part of provisions on 1 January 2009</p>

	<ul style="list-style-type: none"> <li>Act No 18/1996 Coll. on prices as later amended</li> <li>Act No 523/2004 Coll. on budgetary rules of the general government and on the amendment to certain acts as later amended</li> </ul>		
II.	Act No 145/1995 Coll. on administrative fees as later amended	Ministry of Finance SR	Effect and force on 1 January 2009
	Act No 311/2001 Coll. Labor Code as later amended	Ministry of Labor, Social Affairs and the Family SR	
	Act No 553/2003 Coll. on remuneration of certain employees in the performance of work in public interest and on the amendment to certain acts as amended by Act No 369/2004 Coll.		
	Act No 90/1996 Coll. on minimum wages as later amended		
	Act No 283/2002 Coll. on travel fares as amended by Act No 530/2004 Coll.		
	Act No 461/2003 Coll. on social insurance as later amended		
	Commercial Code	Ministry of Justice SR	
	Act No 530/2003 Coll. on the Commercial Register and on the amendment to certain acts as later amended		
	Criminal Code		
	Act on Court Fees	Ministry of Finance SR	
	Act on Gaming		
	Act on the Administration of Taxes and Fees		
	Act of the National Council of the Slovak Republic No 118/1996 Coll. on the protection of deposits and on the amendment to certain acts as later amended		
	Act No 431/2002 Coll. on accounting as later amended		
	Act No 582/2004 Coll. on local taxes and local fee for communal wastes and minor building wastes as later amended		
	Act No 63/1993 Coll. on state symbols of the Slovak Republic and their use as later amended	Ministry of the Interior SR	
	Act No 294/2002 Coll. on the State Treasury and on the amendment to certain acts as later amended	Ministry of Finance SR	
	Implementing regulations for the Act on Accounting and the Act on Prices		
Edict on the introduction of euro banknotes and euro coins			
Edict on the procedure in accepting legal tender			

	Other implementing regulations for laws (edicts and measures)	respective bodies	
III.	Other laws such as:		Effect and force after 1 January 2009
	Civil Code	Ministry of Justice SR	
	Act No 95/2000 Coll. on labor inspection and on the amendment to certain acts as later amended	Ministry of Labor, Social Affairs and the Family SR	
	Act No 5/2004 Coll. on employment services and on the amendment to later acts		
	Act No 50/1976 Coll. on land use planning and building code as later amended	Ministry of Construction and Regional Development SR	
Act No 254/1998 Coll. on public works			

## **7. Information sources on the euro introduction**

### **7.1) Description of the most important tasks**

The main objective of the information campaign will be to contribute to smooth and problem-free euro changeover in Slovakia so that every citizen is informed in time, in a sufficient extent, and in an appropriate form of all matters of concern to her related to the euro introduction, so that the changeover to the new currency does not cause any complications and problems, primarily to the public.

The information campaign will provide sole traders and small and medium sized enterprises with all the information necessary so that they can as simply and efficiently as possible and in due time adapt their economic activities to the conditions of the new currency.

Towns and municipalities. Sufficient information resources necessary for their further dissemination to the public in regions will be provided.

Members of ethnic minorities will be given access to information in their own language.

Sensitive groups of the population. Increased attention will be paid to these groups with regard to their specific conditions in relation to other target groups.

Large enterprises will be provided with the necessary information and essential degree of cooperation in their own information activities.

### **7.2) Communication strategy of the National Coordinator**

#### **7.2.1) Systems and principles of communication**

The system of communication is based on defining the need and extent of knowledge of individual target groups - from the general public, through youth, small and medium sized enterprises, towns and municipalities, to sensitive groups of the population. The potential of individual target groups to disseminate gained information to other groups will be used intensively. (Part 7.2.2))

The information campaign will be managed so that the addressees do not have to actively seek out the information connected with the euro changeover, but so that they receive it via appropriate communication channels in time, in their homes, schools, workplaces, etc.

The prime addressee of the campaign will be the population as a whole and also its individual identified groups. Increased attention will be paid to potentially sensitive groups (pensioners, children, handicapped persons, persons living alone) and also sole traders, small and medium sized enterprises, particularly in economically weaker regions of Slovakia. A significant role in the information campaign towards citizens will be played also by towns and municipalities as intermediaries of practical information from central bodies towards the final addressee. Smaller towns and municipalities in particular will, besides disseminating general information, provide citizens also with specific information of a local nature. (Opening hours of local banks, post offices, etc).

The communication campaign will provide large businesses and general government institutions with clear and timely information, but these institutions will not be the direct addressee (target group) of the information campaign. (These subjects have sufficient sources and instruments to provide their employees, clients and partners with sufficient information).

The most important message of the campaign will be the information that the euro will be introduced in the SR on 1 January 2009 (€Day) and that all residents in the SR, all subjects and institutions located in the SR and all the systems must at this day be prepared for using the euro in cash and non-cash payments.

The material content of the campaign will be all other information and practical advice relating to the changeover to the common currency.

The most intensive part of the campaign will be conducted during the third stage of the process of euro introduction the euro, i.e. in the period between the EU Council decision to admit the SR to the eurozone and the actual entry, euro introduction and the exchange of money in circulation, i.e. in 2008.

The nature of the information campaign will not be persuasive, but rather informative and educational. The most important tasks will include, in particular:

- explaining the unfounded nature of fears of price growth, above usual inflation, caused by the euro changeover. (The importance of this task is highlighted by the experience from other countries using the euro and confirmed also by the results of public opinion surveys conducted by the Statistical Office of the SR in October 2004, in which 53% of respondents expressed fears concerning a growth in prices due to the euro introduction.),
- familiarization with measures adopted for consumer protection, with the dual pricing system as being the most reliable and transparent control mechanism for preventing hidden price increases. The explanation that during dual pricing in 2008 price data in euro will be merely informative, and that shops do not have to accept payments in euro or give change in euro,
- familiarization with the conversion rate, with the mechanism for recalculating prices, wages, pensions and the other incomes, expenditures and liabilities from koruna to euro,
- familiarization with euro banknotes and coins, their security features, explaining that euro banknotes are the same and common for all eurozone countries and that euro coins with national faces are equally valid in all eurozone countries,
- familiarization with the fact that koruna in the non-cash system of payments will cease to exist on 1 January 2009 (€Day),
- explanation that although koruna banknotes and coins in the cash system of payments will from the moment of adopting the euro become merely a denomination of the euro, throughout the period of dual circulation cash payments will be accepted without limitation as the legal tender. Gradually, however, they will be withdrawn from circulation. Following the end of the dual circulation it will be possible to exchange koruna banknotes and coins for euro only in banks,
- providing information on the stages of the euro introduction schedule, on the possibilities, places and procedure of exchanging Slovak koruna for euro, on the opening hours of banks on the first days of the currency exchange.

During the information campaign the Working Committee for Communication (WCC) will continually consult the importance, need and relevance of individual information as well as other potential topics with the National Coordination Committee (NCC), with other Working Committees, primarily the Working Committee for the Non-Financial Sector and Consumer Protection.

The information campaign will respond flexibly also to the results of public opinion surveys.

### **7.2.2) Bodies involved in the campaign**

The main coordinator of the communication activities will be the Working Committee for Communication headed by the National Bank of Slovakia. The Committee will cooperate intensively with the Ministry of Finance as the National Coordinator, with the National Coordination Committee (NCC), and the Government Office of the SR, individual general government bodies, with the commercial sector, the public statutory media, the Association of

Banks of the SR, upper-tier territorial units, towns and municipalities, the Slovak Chamber of Commerce and Industry as well as non-governmental organizations. Commercial subjects and non-governmental organizations can cooperate in communication activities in the framework of Euro-Partnership.

#### **Communication activities in the framework of Euro-Partnership**

The European Central Bank, together with 12 national central banks, used this method in the euro campaign 2002 and in communication with the public to great effect. Any commercial or non-commercial subject can become an official Euro-Partner, where it commits itself to communicate, as part of its ordinary activity, certain issues relating to the introduction of the new currency - security features, the banknote and coin designs, or simply a slogan on the euro introduction, at a certain date for a certain time. The subject develops these activities at its own cost, gaining the right to use the official Euro-Partner logo during the communication campaign. In Euro-Partnership no commercial relationship arises between the National Coordinator and the communication subject.

**At the international level** the WCC will cooperate with the:

- DG ECFIN EC (Directorate General of the European Commission for Economic and Financial Affairs) - via the partnership program enabling the use of PRINCE program funds for co-financing individual selected communication projects and the free use of audio-visual and printed materials,
- European Central Bank - in particular in the form of intensive consultation in the preparation and realization of the information campaign and also via the free use of relevant printed and audio-visual materials, containing primarily information on the designs of euro banknotes and coins, their security features as well as on procedures in checking the authenticity of money in cash handling,
- The Austrian National Bank in a Twinning-Partnership program – in the form of consultations and obtaining experience from the Austrian National Bank's information campaign in introducing the euro in Austria in 1999-2002. The sponsor of this form of cooperation is the European Commission, which will finance this partnership,

The printed and audio-visual materials prepared by the ECB and the European Commission will be distributed free of charge by an intermediary addressing individual target groups (schools, towns and municipalities, handicapped citizens ) and will be used intensively in the information campaign.

#### **7.2.3) Target groups**

- **general public** - the main addressee of the campaign; the greatest share of communication activities will be aimed at this target group,
- **children, school-aged youth** – besides information aimed at the general public children will be provided with information tailored and prepared for their age, eventually also the potential of this group to further disseminate the information especially to relatives may be used (grandparents, relatives and friends in their homes, in regions),
- **secondary schools and university students** – this target group will be addressed both as an addressee and also as an intermediary of information to other groups of the population – in particular family members (grandparents, relatives and friends in their homes, in regions),

- **sensitive groups (elderly persons, handicapped persons, persons living alone)** - besides information intended for the general public, specific instruments and communication channels will be necessary for informing this group,
- **upper-tier territorial units, towns and municipalities - local authorities** (in particular in economically less developed regions) - this target group will be addressed as an intermediary of information towards a lower level in the framework of local authority structures. Local authorities will be an easily available source of information for elderly persons, persons living alone, handicapped persons, the homeless, ethnic minorities,
- **sole traders, small and medium sized enterprises** - besides information intended for the general public, specific information relating to their economic activities (changes in accounting, cash register software, dual pricing rules, information boards for clients ...) will be addressed in a targeted manner at this group. This target group will at same time be another disseminator of information to their clients and business partners in the sphere of their operations,
- **ethnic minorities** - information in the minority's language (language variations of the most important information materials in Hungarian, Romany, Ukrainian, Ruthenian, German and Polish).<sup>8</sup>

#### 7.2.4) Communication instruments

The particular details of the application of specific instruments in individual forms of communication with specific target groups can be determined only during the course of conducting the campaign itself based on the sum of information available at the given time. According to the experience of 12 eurozone countries as well as from recommendations by the European Commission and the European Central Bank it will be necessary in conducting the information campaign to cooperate with a professional communication agency, or agencies. The choice of the instruments themselves and their use will be influenced by the development of the communication field, public opinion survey results and budgetary possibilities. Despite this, it can already be expected that several instruments will be used:

- **information in the media** - information will be provided on an ongoing basis as part of the ordinary content of the media, in particular in news and journalism, or on a one-off basis or in cyclical broadcasts in the electronic media and in supplements in printed media on the given topic,
- **advertising in the media** - paid space in the printed and electronic media,<sup>9</sup>
- **universal printed information material**<sup>10</sup> delivered to every household in the SR by Slovak Post,
- **website** - a separate specialized website devoted to the euro introduction containing all available information and links to other sources. This page will be linked to from the websites of all central government bodies and at their discretion also websites of other organizations and institutions whose activities are affected by the euro changeover,
- **separate printed materials** - leaflets, brochures, posters,

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<sup>8</sup> Ethnic composition of the SR population: Slovak (85.8%), Hungarian (9.7%), Romany (1.7%), Czech (0.8%), Ruthenian, Ukrainian, Russian, German, Polish and others (2%).

<sup>9</sup> Based on recommendations of the European Commission, ECB and central banks of the present 12 eurozone countries, it is not possible to rely wholly on informing the public by the media only in standard news or journalistic materials. Only paid advertising can guarantee the provision of comprehensive, complete and precise information corresponding to the aim of the sponsor, where the content of this advertising can be guaranteed and fully influenced by the sponsor - communicator.

<sup>10</sup> All the most important information, the design of banknotes and coins, security features, the most important dates ...

- **audio-visual and multimedia materials** - video cassettes, CD-ROMs, DVDs distributed in particular to schools and local authorities,
- **outdoor advertising** - posters, billboards, central mega-billboard (on the NBS building) and other media,
- **free phone link** - will provide callers with all necessary information on the euro introduction. The existing info line of the Government Office of the SR will serve for this purpose (0800 103 104), which at present is devoted to European integration issues,
- **professional conferences, lectures, training sessions, seminars,**
- **Euro day** - a nationwide event for the general public (public events, concerts, happenings, open days, in all large towns, or municipalities with adequate possibilities) at the beginning of the most intensive part of the information campaign - **100 days before the introduction of the euro** (24 September 2008, Wednesday - use of the nearest Saturday of 27 September 2008 for this event),
- **promotional materials** with the euro introduction motif.

**Logo and slogan** - the common logo of the European Central Bank and all countries in national languages. It is recommended to use the central logo and slogan also in the campaign in the SR. (Appendix 2).

*(Currently the ECB and the European Commission are discussing a possible new logo and slogan, in the case of its approval the new symbols approved by the European institutions would become the central symbol for the euro introduction.)*

#### **7.2.5) Campaign schedule**

The communication strategy for the euro introduction in the SR will be based on the individual stages of the SR euro changeover timetable (Part I). Therefore, as mentioned in Point 7.2.4), a too detailed specification of instruments in the schedule could be to the detriment of flexibility in conducting the information campaign. The schedule specifies only the instruments and topics whose use can at the stage of preparing the Changeover Plan be presumed with a high degree of certainty. The instruments and topics will be detailed on an ongoing basis in updated Changeover Plans.

More details on the information campaign schedule are given in the tables

<b>2005</b>	<b>date</b>	<b>sponsor</b>
Presentation of motifs of the national euro coins – exhibition Euro Coins Genesis, premises at the headquarters of the NBS Bratislava	16.9.-15.10.	NBS, European Commission
Presentation of motifs of the national euro coins – exhibition Euro Coins Genesis, premises at the Technology Building Košice	18.10. – 9.11.	NBS, European Commission
Open day at the National Bank of Slovakia	17.9.2005 (alternative 24.9.)	NBS
Announcement of the public opinion poll on the artistic designs on the faces of the Slovak euro coins	11.11.2005	NBS
Public opinion poll of Slovak citizens on the artistic designs on the faces of the Slovak euro coins	14.-20.11.2005	NBS
Announcement of the public opinion poll results on the artistic designs on the faces of the Slovak euro coins	20.12.2005	NBS
Presentation of the communication strategy for euro introduction in the SR – press conference	2 <sup>nd</sup> half	WCC

<b>2006<sup>11</sup></b>	<b>date</b>	<b>sponsor</b>
Public opinion survey	1 <sup>st</sup> and 2 <sup>nd</sup> half	Statistical Office
National conference at the occasion of the SR entry into ERM II.	within a month after the ERM II entry	NBS, Ministry of Finance, Government Office
Selection of the communication agency	by 31.12.	NCC
Selection of an agency for the preparation and operation of a website	by 31.12.	NCC
Activation of the non-governmental sector	2 <sup>nd</sup> half	WCC

<sup>11</sup> Preparatory stage of the campaign.

<b>2007<sup>12</sup></b>	<b>date</b>	<b>sponsor</b>
Public opinion survey	1 <sup>st</sup> and 2 <sup>nd</sup> half	Statistical Office
Preparation of information materials and information media	from January	WCC
Activation of non-government sector	from January	WCC
Commencement of the operation and public presentation of the euro introduction website	1 <sup>st</sup> half	WCC
Connection of central government bodies' websites to the euro introduction website	1 <sup>st</sup> half	central government. bodies
Communication of design of euro banknotes and coins and protection features of banknotes	2 <sup>nd</sup> half	WCC
Communication of euro introduction schedule in the SR (possibilities of exchange...)	2 <sup>nd</sup> half	WCC
Training of info line operators and trainers for selected target groups (handicapped persons, minorities, persons living alone, the elderly...)	2 <sup>nd</sup> half	WCC

<b>2008<sup>13</sup></b>	<b>date</b>	<b>sponsor</b>
Communication focused on all target groups with the use of all communication instruments	from January	WCC
Informing the public via the info line of the Government Office of the SR	from January	Gvt. Office
Broadcasting of separate programs in the public media (Slovak TV Station, Slovak Radio) devoted to the euro introduction in the SR	from January	Slovak TV, Slovak Radio
Public opinion survey	1 <sup>st</sup> and 2 <sup>nd</sup> half	Statistical Office
Euro Day – events for general public at the start of the most intensive part of the information campaign - 100 days before euro introduction	27.9. Saturday	NCC
Placement of the central mega-billboard on the NBS building	24.9. (Wednesday)	NBS

<b>2009</b>	<b>date</b>	<b>sponsor</b>
Public opinion survey	1 <sup>st</sup> and 2 <sup>nd</sup> half	Statistical Office
Evaluation of the information campaign	2 <sup>nd</sup> half	WCC

<sup>12</sup> Communication activities in 2007 will be gradually focused on all target groups, in the second half of 2007 making the campaign more intensive

<sup>13</sup> Intensive information campaign.

### **7.3) List of tasks**

1. Include in the plan of activities and implement the public opinion survey on the euro introduction, on the extent of information received by the citizens, and on the need to obtain information. (twice a year)  
Responsible: Statistical Office of the SR  
Deadline: 01/2006 – 12/2009
2. Selection and cooperation with an external communication agency  
Responsible: NCC (selection) WCC (cooperation)  
Deadline: 01/2006 – 12/2009
3. Selection and cooperation with the agency for the preparation, creation and updating of euro introduction website  
Responsible: NCC (selection) WCC (cooperation)  
Deadline: 06/2006 – 12/2009
4. Prepare and broadcast separate programs devoted to the topic of euro introduction in the SR.  
Responsible: Slovak TV, Slovak Radio  
Deadline: 01/2007 – 12/2009
5. Update curricula and teaching aids for schools (in texts to replace Slovak koruna by euro) and to include in the curriculum information on the euro introduction.  
Responsible: Ministry of Education of the SR  
Deadline: on an ongoing basis
6. Prepare for central government staff information on the euro introduction in the SR.  
Responsible: Central government bodies  
Deadline: 01/2008 – 12/2008
7. Actively cooperate with public media in the preparation of programs on the euro introduction (to ensure the participation of experts)  
Responsible: Central government bodies  
Deadline: on an ongoing basis
8. Actively cooperate with media in various forms of dissemination of information on the euro introduction in the SR  
Responsible: Working Committees + Central government bodies  
Deadline: on an ongoing basis
9. Actively cooperate with the WCC in distributing universal printed materials to each household (direct mailing) via Slovak Post, at the lowest possible costs.  
Responsible: Ministry of Transport, Posts and Telecommunications of the SR  
Deadline: 2nd half of 2008
10. Ensure adequate staffing of information telephone line of the Government Office SR  
Responsible: Government Office SR  
Deadline: 01/2008 – 12/2009
11. Identify the need and to implement training of info line operators and trainers for selected target groups (handicapped persons, minorities, persons living alone, the elderly, local and territorial authorities)  
Responsible: WCC  
Deadline: 07/2007 – 12/2007

## **8. Support of the euro changeover by information and statistical systems**

### **8.1) Description of the most important tasks**

It is essential to clearly identify which information systems may be affected by the euro changeover. As a rule these should be only information systems operating with financial information in the Slovak currency, in particular:

- general ledgers,
- electronic payment systems,
- accounting and invoicing systems,
- systems processing wages and salaries,
- account journals containing liabilities and receivables,
- account journals containing data on inventory and its value,
- account journals containing information on real-estate, its value and depreciation charges over period,
- management systems for the field of production, working with financial indicators,
- financial planning applications,
- cost monitoring applications,
- enterprise resource planning applications (ERP),
- state treasury information systems and other applications used for public finance management,
- bank systems, including NBS systems,
- legal databases containing financial contracts.

The Ministry of Finance and the Ministry of Transport, Posts and Telecommunications will draw up an analysis of information systems with a potential impact on the euro changeover. The analysis will be prepared in a broad discussion with a key group of users so that potentially extended demands on the functionality of these systems may be covered in the period following the changeover, with the possibility for feedback.

Attention must be given also to technology used, since in some cases even hardware can be negatively affected by the euro changeover, mainly where a simple technical equipment is concerned.

It will be necessary to monitor especially thoroughly the mutual interconnection of systems (not only internal, but also external with customers and suppliers).

It is crucial to define affected systems and their quality from the logical and technological aspect for the strategy of the euro changeover. In the case of lower quality information systems it will be necessary to make fundamental changes and not only partial, which would create the potential for negative impacts.

In setting priorities it is necessary to take into consideration the importance and complexity of information systems, important systems for an operation of an organization have higher priority, complex systems require more time for conversion, therefore they must receive greater priority.

Since the changeover will be in the form of a “Big Bang” it is essential to devote attention to the simultaneous adjustment of all systems at the set date, something which requires extensive coordination activity.

## **8.2) Procedure in the conversion of statistical databases and information systems**

It is essential to identify the material scope of the technical conversion of large financial and statistical information systems with regard to norms or legislative regulations issued by central government bodies, such as the Statistical Office of the SR (Act on State Statistics, state statistical surveys program, registers, classifications, general directives for intelligence units, applicable instructions and methodological guidelines, interdepartmental agreements on the mutual provision of data, etc). Essentially this will concern all norms containing data in the Slovak currency.

The Statistical Office of the SR and the Ministry of Finance of the SR will propose the minimum length of historical statistical time series, for which it will be appropriate to recalculate data in financial and statistical databases that contain financial (value) information. The recalculation process itself will be performed only following the issuing of a legislative regulation, by that time it will be necessary to identify lists of data which will be recalculated, generally binding legal principles of recalculations for all statistical systems. Respective owners of large information databases will prepare software solutions for recalculation according to the nature and structure of individual data stores.

For converting statistical databases it will be necessary in particular to:

- make complete lists of indicators that are to be recalculated,
- determine the manner of recalculating data for the period of data collection in the Slovak currency in the process of processing statistical data prior to the eurozone entry,
- define principles and coefficients for recalculating data into euro and to set the period from which it will be mandatory to publish data in both currencies,
- determine the method of rounding and multiples of euro (unit of measure) for storing data,
- set methodological principles for ensuring the comparability of data and principles for solving balance differences,
- propose specific statistical surveys to be performed for the needs of introducing the euro in the SR (indicators, independent detection, supplementing indicators to existing media).

## **8.3) List of tasks in the field of information and statistical systems**

Create a matrix of information systems in the public sector with defined feedbacks

Responsible: Ministry of Finance SR

Deadline: 30. 9. 2005

Perform a specialized audit of information systems of the public sector, focusing on the ability of the system to change over to the euro

Responsible: Ministry of Finance SR, Ministry of Transport, Posts and Telecommunications

Deadline: 31. 12. 2005

Prepare methodological guidelines for the creation of new information systems with regard to the guarantee of their compatibility with the euro

Responsible: Ministry of Finance SR, Ministry of Transport, Posts and Telecommunications

Deadline: 30. 6. 2006

Draw up and publish methodological guideline for the conversion procedure with historical data

Responsible: Ministry of Finance SR, Statistical Office SR  
Deadline: 30. 6. 2006

Draw up and publish a list of critical factors to which attention must be paid in the process of preparing the systems for the euro changeover

Responsible: Ministry of Finance SR, Ministry of Transport, Posts and Telecommunications  
Deadline: 31. 12. 2005

Prepare recommendations for the private sector concerning the building of new information systems, adjustments to the existing information systems, conversion of historical and statistical data

Responsible: Ministry of Finance SR, Ministry of Transport, Posts and Telecommunications  
Deadline: 31. 12. 2005

Prepare and publish the adjusted statistical forms

Responsible: Statistical Office SR in cooperation with substantially competent ministries and public bodies  
Deadline: 30. 6. 2008

Prepare the conversion methodology for statistical data

Responsible: Statistical Office SR  
Deadline: 31. 12. 2006

Perform an integration test of central systems for the field of public finance management

Responsible: Ministry of Finance SR  
Deadline: 30. 6. 2008

Perform an integration test of information systems of the banking sector

Responsible: NBS  
Deadline: 30. 6. 2008

## **9. Recommendations of the National Coordinator**

### **9.1) The National Coordinator recommends banks and financial institutions:**

1. In the last December days in 2008 to load ATMs primarily with lower banknote denominations.
2. To load ATMs at the start of January 2009 with a sufficient quantity of euro banknotes, mainly in lower denominations (so that when paying with them it will not be necessary to give out a lot of change). According to possibilities all ATMs should be reset to euro immediately on 1 January.
3. To exchange koruna banknotes for euro until the end of 2009 and coins until June 2009 free of charge and without any related fees.
4. To provide, in cooperation with the NBS, their clients and small retailers packages (paper bags) for sorting coins so that customers do most of the sorting and counting themselves and so that the sorting of coins can be easily controlled and marked.
5. To accept during dual circulation koruna cash from small retailers without fees and without limitations.
6. To open some branches at least for cash operations (exchanging koruna for euro) even on 1 January 2009.
7. To facilitate for business subjects and sole traders in an appropriate manner the depositing an exchange of koruna cash.
8. To dual price services and send dual statements for the period of 18 months following the euro introduction.
9. To prepare and realize for their employees, clients and business partners their own communication activities before and after the euro introduction on all matters in the field of their activity affected by the euro changeover.
10. To use the approved symbols of the information campaign given in Annex 2 in their information activities relating to the euro changeover in the SR.
11. That the National Bank of Slovakia besides active participation in the national information campaign, prepare and undertake its own communication activities on the euro introduction in the SR.

Other recommendations for business subjects in Part 9.4) are also relevant for banks.

### **9.2) The National Coordinator recommends local authority bodies and central government bodies:**

1. To perform as soon as possible, though at latest by 15 November 2005, a revision of existing applicable legal regulations needing change for the euro adoption. This does not concern only laws, but also all lower legal norms, as well as general regulations of municipalities and towns.
2. In amending their normative acts to proceed analogously as specified for ministries and other central government bodies of the SR (Chapter 3).
3. To perform as soon as possible, though at latest by 15 November 2005, a revision of existing information systems and identify the need for their amendment to the conditions for the euro adoption.
4. To focus in the process of preparing legislation and information systems exclusively on the reason why the revisions themselves are being performed, i.e. ensuring the conditions

for the euro adoption and to avoid the tendency and effort to bundle together tasks not directly related to the issue of preparing for the euro changeover in the SR.

5. To ensure the efficient use of public funds in the process of adjusting information system.
6. In all new information systems and technologies take into account their potential for euro conversion.
7. That the Association of Towns and Municipalities of Slovakia and the Union of Towns in Slovakia prepare and conduct, before and after the euro introduction, for local authority employees their own communication activities on all matters affected by the euro changeover.
8. That public institutions, besides their cooperation with the National Coordinator in the information campaign, prepare and conduct within their operations also their own communication activities aimed at their clients. In case of public media this should concern in particular specialized (one-off or cyclical) programs, broadcasts devoted to the topic of the euro changeover.
9. To use in information activities related to the euro changeover in the SR the approved information campaign symbols given in Annex 2.
10. That public media in broadcasting and in particular in paid advertising adopt a special approach appropriate to the nature of the campaign.
11. That all media in their news and journalistic reporting provide information on the individual stages and characteristics of the SR's accession process into the eurozone.

### **9.3) The National Coordinator recommends citizens:**

1. To at the latest at the beginning of December deposit surplus cash, especially coins (to empty all piggy banks and cash boxes) at banks.
2. To watch information boards on consumer rights and general requirements for the euro introduction published on local authority information boards.
3. To acquaint themselves with euro banknotes and coins, as well as the security features of euro banknotes.
4. At the time of the introduction of dual pricing, to inform control bodies of all discrepancies relating to the euro introduction.
5. To request from vendors a commitment that dual pricing will be performed also outside the framework of statutory obligations.
6. To request from vendors fulfillment of the commitment to not increase prices as a consequence of the euro changeover.
7. During dual circulation to give priority to using non-cash forms of payment.

### **9.4) The National Coordinator recommends business subjects:**

1. To identify changes concerning daily, short- and long-term operations in relation to the euro changeover, affecting planning, management and control processes.
2. To draw up individual business plans for the euro changeover and to determine the method for their control.
3. To reassess the need for the existence or reduction of bank accounts, which relates directly to the process of technical realization of euro introduction.
4. To identify (test), plan and implement all changes to the business information technology.
5. To define, within a new or amended strategy on the euro changeover, all critical risks connected with the existence and functioning of the firm. Potential risks concerning financial service, purchasing and sales may be broken down into:
  - commercial, where this concerns interest rate risk; currency, liquidity and credit worthiness risks in relation to changes in the processes of the business's financial service;

- technical and organizational, where this concerns risks connected with flexibility, capacity and errors in re-denomination;
  - strategic, where this concerns investment risks, competitiveness risks, risks connected with the adjustment of contractual relations and cooperation.
6. Recommends that large businesses prepare and realize for their employees, clients and business partners, their own communication activities before and after the euro introduction in all matters in the field of their activity affected by the euro changeover.
  7. Recommends that individual interest groups and associations prepare for their members (large businesses, banks, insurance companies...), their clients, employees and business partners their own communication activities aimed at their specific needs.
  8. To use the approved information campaign symbols given in Annex 2 in information activities relating to the euro changeover in the SR.

#### **9.4.1) The retail sector:**

1. To begin with the recalculation of prices as soon as possible following the publication of the official conversion rate for dual pricing.
2. To complete the recalculation of prices of all goods and services at latest by 31 December 2008.
3. To ensure, in accordance with the method proposed in Part 4.1.2), dual pricing and dual display and to continue in dual pricing until 30 June 2010.
4. To locate in outlets currency calculators, on which customers themselves can recalculate values to euro.
5. To publicly declare a commitment to maintain price stability and to not increase retail prices due to the euro changeover.
6. To ensure in advance software adjustments to electronic cash registers for the recalculation of prices and total amounts and for issuing the document for the consumer in euro and koruna.
7. To prepare for accepting payments from consumers in euro and koruna over the dual period and for giving out change only in euro.
8. To extend opening hours during the first weeks following the euro introduction.
9. To not concentrate sale events in the first days or weeks of January 2009.
10. To open some outlets also on 1 January 2009.
11. At large shopping centers to designate one or more employees who, as a customer service, will answer customers questions concerning the euro and prices of goods.
12. To store during dual circulation koruna banknotes at separate places so that they are not visible to customers and so that customers do not therefore request that change be given in koruna.
13. To ensure a sufficient flow of euro banknotes and coins from banks over the course of dual circulation so that they are able to give out change in euro.

#### **9.4.2) Professional organizations in trade and services:**

1. To cooperate with the competent general government bodies in the preparation of legal norms relating to the euro changeover in the Slovak Republic.
2. To cooperate with the competent bodies in handling consumers complaints regarding breaches of the umbrella law.
3. To engage in the national promotional and education campaign.

## 9.5) Recommendations for adapting information and statistical systems

The basic recommendation which should help to eliminate potential negative impacts from the euro changeover is to perform a technical-technological audit of the affected information systems.

The acquisition of new information systems and also significant changes to systems should already now take account the conditions of the euro changeover, which we recommend should be explicitly incorporated also in contracts with information system suppliers.

### Audit focus of affected information systems

Problems with inputs:

- receipt of financial information in two currencies (the euro and Slovak koruna),
- change of the current system
  - requires time for planning and testing,
  - risk of error by clerks,
- use of parallel systems (two equal versions of financial information systems)
  - it is often not possible with regard to the technical limitations of hardware,
  - risk of error in confusing the information system working with euro and the information system working in Slovak koruna,
  - problems with transactions,
  - problems with limits for customers,
- sequential changeover
  - need for interfaces between systems,
  - risk of confusion between users as to the currency used.

Problems with outputs

- creating financial outputs in two currencies (the euro and Slovak koruna).

Problems with interfaces

- exchange of financial information between systems working with Slovak koruna and systems working with euro,
- creation of converters,
- simultaneous change - everything at once,
- autonomous groups - groups of information systems which are relatively autonomous.

Problems with conversion

- in the case of historical financial data in Slovak koruna which will be needed also following the euro changeover; this data must be converted to euro,
- manual conversion,
- instrument for automated conversion,
- change to information systems.

Technical details that need to be taken into consideration

- rounding
  - differences can arise in the conversion between Slovak koruna and euro which will lead to the suspension of information processing,
- interfaces between systems
  - building interfaces can be more demanding than at first appears, in particular rounding problems,
  - it is necessary to focus attention on possible threats from the confusion of amounts expressed in euro and amounts expressed in the Slovak koruna
  - it is necessary to devote attention to systems which are interconnected with different systems of other organizations, in this case it is necessary to agree on

a common procedure at both organizations as to when and how these systems will convert to euro,

- conversion of historical data
  - the conversion of historical data sources must be performed using the same methodology and the same system, otherwise unforeseeable errors and problems can occur.
  - problems can occur in the conversion of financial metadata (data in a descriptive field)
  - two methodologies exist for converting amounts from Slovak koruna, where each has its own advantages. Each methodology gives different outputs, therefore an organization must opt for one of them and adhere to it precisely
- decimal places
  - this concerns in particular the information systems which have been set for work with a Slovak koruna without decimal places; in the case of these systems it is necessary to correct them for using euro cents
- displaying both currencies
  - this can cause problems with regard to the limited number of columns displayable on screen
- limit values - financial information systems often use limit values to define the system's actions. These limit values must be converted to euro so as to prevent unexpected actions by information systems
- Spreadsheets - with regard to the very high demands involved in creating an instrument for the automatic conversion of tabular models to euro it is more efficient to rebuild this tabular model and not attempt manual conversion
- staff training

## **10. Appendix 1: Inflation risks of the currency changeover and how to address them**

### **10.1) Theoretical expectations**

Currency changeover in the conditions of the eurozone is a technical operation involving the recalculation of prices and financial values and the exchange of national banknotes and coins for euro banknotes and coins according to a precisely set conversion rate (defined with six significant digits) in a country non-cash and cash circulation. The change of currency itself therefore does not in principle contain any stimuli for price increase.

#### **10.1.1) Risks of accelerating inflation**

Despite the fact that from the technical aspect there is no reason why the changeover of the national currency to the euro should lead to a general increase in prices, there do exist several channels by which faster price growth, or inflation acceleration, can occur in the currency changeover. These are

- implementation costs,
- recalculation, so called “menu” costs,
- rounding to a new attractive price in euro,
- inflation perceived incorrectly by the public.

Implementation costs. In order to enable transactions to be made in euro private companies will incur one-off costs (adjustment and purchase of technical and technological equipment, staff training), which they could (partially) pass on to the consumer in an effort to maintain their profit margin. These costs however should be only minimal. Besides this, the costs are of an investment nature and their potential effect on prices will be spread over a longer term.

Recalculation costs (menu costs). Retail prices are from time to time revised (e.g. in printing new price tags, menus in restaurants, etc.), which is connected with certain adaptation costs. Firms transfer these costs into consumer prices. It can be expected that traders will carry out this recalculation of costs at the same time with the transition to the new currency<sup>14</sup>. In this way there could occur upon the euro introduction an extraordinary concentration of individual price changes over a short space of time, where this could influence the usual seasonal course. On the other hand, through performing both operations simultaneously (adaptation of costs and recalculating prices to euro) traders can save a part of these costs. Over a longer term (i.e. more than one year) average inflation should not be influenced.

Rounding to new prices attractive to consumers. It is likely that companies will round prices to new ones that are consumer-attractive in euro. The use of psychologically attractive “.99” prices is very widespread in retail trade. Companies will have to reassess the structure of the prices following the conversion to the euro in order to achieve new psychologically attractive prices. These changes however should include adjustments in both directions (upwards as well as downwards) and the overall effect on prices should be neutral<sup>15</sup>. The process of rounding prices should be of a longer-term nature.

Perceived inflation. As a potential factor in accelerating inflation it is necessary to consider also the phenomenon of perceived inflation, i.e. inflation which the public perceives based on

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<sup>14</sup> Price changes for shops are expensive, therefore they do not ordinarily change prices upon each change in costs, but only when the difference between the current and optimal price reaches a certain limit. The retail sector will also incur certain costs relating to the recalculation of prices from the domestic currency to euro.

<sup>15</sup> Naturally, in the case that upward rounding were to prevail significantly in the process of forming attractive prices, a certain inflationary stimulus could arise. Nevertheless, such an asymmetric rounding of prices should be prevented by sufficiently strong competition in the retail sector.

individual consumer and purchasing habits and experience. With regard to the fact that the basis of perceived inflation are individual subjective evaluations, its rate can differ (sometimes significantly) from official statistics of price development. High perceived inflation can subsequently lead to pressures for increasing wages and so become a source of cost inflation in the macroeconomic scale.

### **10.1.2) Factors operating against an increase in prices**

It can be expected that the following factors will operate against an increase in prices at the time of euro introduction:

- competition in local markets,
- dual pricing and monitoring of price development,
- agreements on maintaining price stability at the time of changeover,
- thorough recalculation of regulated prices according to the conversion rate.

Competition. It may be presumed that competition in local markets is now sufficiently strong in order to prevent an unjustified increase in prices in consequence of the currency changeover. Indeed, companies may even reduce prices and use the euro to attract customer (with the aim of increasing market share). Opportunities for increasing prices may at the same time be determined to a significant extent by the current demand situation.

Dual pricing and monitoring of price development. In order to facilitate orientation in new prices and to lay the foundations for consumer habits to calculate in the new currency, prices will be displayed for a certain time, both before and after the currency changeover, in a dual manner: in the domestic currency (in the case of the SR in koruna) and in euro. Dual pricing will at the same time serve customers as a control instrument over the development of prices; thus at least complicating retail price increases. Consumers and consumer organization will however have to carefully observe the price development and use both meanings of the dual pricing.

Agreements to not increase prices. After the euro creation governments of the eurozone member states undertook, or publicly declared, that the euro introduction will have a neutral effect on consumers in terms of prices and incomes. The optimal solution is to achieve, for the currency changeover period – i.e. at least for the period during dual display - agreements on price stability with business subjects, or trade associations in all sectors of the economy. An agreement on guaranteeing price stability in the retail sector during the currency changeover was signed at the European level by 13 retail and trade associations.

Thorough recalculation of regulated prices according to the conversion rate. The price stability principle should primarily be applied in the field of prices administered by general government institutions. All regulated prices should therefore be thoroughly recalculated according to the conversion rate. The state in this way gives a strong signal to the private sector on the credibility of its declared commitment to ensure that the currency changeover does not become an opportunity for unjustified price increases.

From the above it is clear that the price effects of the currency changeover as a whole can be spread over a relatively long time period prior to and following the euro introduction. Thus the price development monitoring needs to be subordinated to this. The period during which price development will be monitored more closely must be sufficiently long so as to encompass the time period of the forecast increased occurrence of attempts for unjustified consumer price increases.

### **How the present eurozone countries estimated the inflationary influence of the euro introduction prior to the introduction itself?**

These estimates, while not directly comparable given the differences in analytical methods used, assumptions and periods monitored, nonetheless give a rough idea of the expected effects of the euro introduction on consumer prices in the eurozone.

A study by the *Dutch* De Nederlandsche Bank estimated that the effect of rounding all prices may represent a contribution to inflation up of 0.7%; the study did not however take account of the influence of competition. The inflationary effect of including implementation costs in prices in 2001 and 2002 was estimated at 0.2-0.3%.

A study by the Federal Statistical Office of *Germany* and the Deutsche Bundesbank estimated the influence of the euro changeover on prices in Germany in the period from January to October 2001 at 0.0-0.5%. In June 2001 consumer organizations began to regularly monitor the development of prices in Germany. A study by the IFAV (Institut für angewandte Verbraucherforschung) of January 2002, based on a survey in 100 shops, banks and service operations with 841 various products, reported a roughly balanced number of price increases and price decreases. In the period from June 2001 to January 2002 they found price changes in shops in 51% of cases, of which 49% of cases were increases and 51% decreases; changes at banks in 36.2 % of cases, of which 52.9 % increases, 47.1 % decreases; in services 75 % of cases showed changes after the euro introduction, of which more than 80 % were increases in the range from 0.24 % do 48.5 %.

A joint study by the central bank and Ministry of Finance of *Luxembourg* estimated that in the most pessimistic scenario the euro introduction could lead to an increase of 0.52 – 0.60% in the national Consumer prices index (CPI).

In *Portugal* according to a study by the Institute for Small- and Medium-Sized Enterprises 87 – 93% of ship-owners did not increase prices, 6 – 9% increased prices, though for reasons other than the euro introduction. A study by the central bank focusing on estimating the effects of rounding to the nearest cent, using price data from January 2001, reached the conclusion that in the worst case the national CPI would increase by 0.23%, whereas in the most optimistic case a decline would occur of 0.26%.

Research in *Finland* on the possible consequences of the currency changeover, published in May 2001 and conducted at the Finnish Research Institute for Consumer Issues and at the Ministry of Finance in cooperation with the Statistical Office, identified 107 products prices which had been rounded to an attractive price in euro. The year-on-year growth in prices of this set was estimated at 7.8%. Its weight in the CPI represented only 1.2%, but the estimated effect on the overall CPI was less than the 0.1% of the annual rate of 3.4%.

## **10.2) Experience of eurozone countries**

### **10.2.1) Evaluation based on official Eurostat statistical data**

The year-on-year rate of inflation, measured by the Harmonized Index of Consumer prices (HICP), in 2002 in the eurozone stood at 2.3%, the same level as a year earlier. According to Eurostat analysis the largest part of the growth in prices in 2002 was the result of ordinary and some specific factors unrelated to the euro introduction. These were in particular adverse weather, volatile energy prices and a substantial tax increases on tobacco products. Ordinary and extraordinary factors in total explained 2.01 - 2.18% of the total inflation of 2.3%.

**Eurostat estimated the contribution of the introduction of euro banknotes and coins into circulation at 0.12 - 0.29% of the total inflation of 2.3%. The largest part of this whole effect, estimated in the range of 0.09 - 0.28%, occurred in the period between December 2001 and January 2002.**

The identified influence of the currency changeover on prices in the eurozone was the results of a detailed analysis. Partial analyses led to the following findings:

- the prevailing majority of items (of expenditure groups), representing approximately 54% of the total HICP weight, did not show any unusual price development in 2002 that would influence aggregate HICP;
- irregular price development was reported in expenditure groups representing 20% of total HICP weight, these irregularities however were not related to the euro introduction, but to extraordinary external factors (volatile energy prices, increase in security measures and subsequently in prices for transport and vacation following 11 September 2001, substantial tax increases on tobacco products at the start of 2002);
- the remaining expenditure groups, broken down into sub-groups with “probable” and “most probable” effects of the currency changeover in which the potential effects of the euro introduction could be seen, represented 26% of the eurozone aggregate HICP weight.

The results of the detailed analysis of the sub-groups in which the “probable” and “most probable” effect of the euro introduction on price development in 2002 was estimated are summarized in Table 10.1.

**Table 10.1: Estimated influence of currency changeover by expenditure groups (contribution to inflation in percentage points)**

		Jan02/Dec01	1Q02/4Q01	2002/2001
	<b>The most probable effects</b>			
	<b>Services</b>			
941	Recreational and sports services	0.01	0.01	0.02
10X0	Education	0.01	0.01	0.01
1111	Restaurants, cafes, etc.	0.06	0.07	0.08
1211	Hairdressers and personal care facilities	0.01	0.01	0.01
	<b>Total most probable effects</b>	<b>0.09</b>	<b>0.10</b>	<b>0.12</b>
	<b>Probable effects</b>			
	<b>Services</b>			
444	Other housing related services	0.00	0.00	-0.01
723	Maintenance and repair of personal transport equipment	0.01	0.01	0.02
1120	Accommodation services	0.02	0.03	0.02
	Other services	0.01	0.00	0.00
	<b>Subtotal for services</b>	<b>0.04</b>	<b>0.04</b>	<b>0.03</b>
	<b>Foodstuffs</b>			
444	Bread and cereals	0.02	0.03	0.05
113	Fish	0.00	0.02	0.02
114	Milk, cheese, eggs	0.03	0.03	0.02
116	Fruit	0.04	0.05	0.04
117	Vegetables	0.04	0.00	0.00
118	Sugar, jam, honey, chocolate and confectionery	0.00	-0.01	-0.01
119	Foodstuffs not specified	0.00	0.00	0.01
213	Beer	0.00	0.00	0.01
	<b>Subtotal for foodstuffs</b>	<b>0.13</b>	<b>0.12</b>	<b>0.13</b>
	<b>Non-energy industrial goods</b>			
933	Garden, plants, flowers	0.01	0.01	0.01
	Other non-energy industrial goods	0.01	0.01	0.00
	<b>Subtotal for non-energy industrial goods</b>	<b>0.02</b>	<b>0.02</b>	<b>0.01</b>
	<b>Total: Probable effects</b>	<b>0.19</b>	<b>0.18</b>	<b>0.17</b>
	<b>Interval</b>			
	<b>Lower limit (most probable effects)</b>	<b>0.09</b>	<b>0.10</b>	<b>0.12</b>
	<b>Upper limit (probable effects + most probable effects)</b>	<b>0.28</b>	<b>0.28</b>	<b>0.29</b>

Source: Euro changeover effects. Eurostat, Euro-Indicators, news release, Annex, 18 June 2003.

Expenditure group items in the case of which the most probable explanation of price changes in the period December 2001 - January 2002 was the euro introduction included primarily miscellaneous services, particularly restaurants and cafes, small operations such as hairdressers, various repair services, dry cleaners and services relating to recreation, culture and sport. The month-on-month (January 2002/December 2001) effect of these items on the aggregate HICP represented 0.09%, reaching by the end of the year 0.12% in the average annual HICP (2002/2001).

Items included in the group with a probable influence from the euro introduction were characterized in 2002 by unusual price development with no explanation found in any non-euro factors. Therefore they were termed “probably” influenced by the euro introduction. This group contains certain foodstuffs such as bread and bakery goods, fruit, vegetables, beer, as well as certain services such as car servicing and accommodation services.

The effects of the euro introduction on consumer prices varied between individual countries. The annual report of the European Central Bank (ECB) for 2002 states that the inflationary effect from the euro introduction, according to calculations by statistical offices, represented 0.2% (France) through to 0.6% (Holland) of national HICPs. Differences between countries are explained in particular by different levels of competition in local markets (depending also on the relative significance of large retail chains and small retail vendors) and a different situation in demand in the individual countries. However, the results of the individual studies are not directly comparable given the differences in the statistical methods used, focus of the analyses, etc.

To summarize: Evaluations of the first year following the euro introduction into cash circulation showed, based on official statistical data, only the slight effect of the currency changeover on the aggregate HICP of the eurozone, as well as on the HICP of individual member states. The prediction that potential influences of implementation costs and rounding on price growth will be to a significant extent suppressed by competition in the transparent markets of the eurozone was confirmed. Price increases attributable to the euro introduction were concentrated in a narrow range of goods and services, which was closely tied to domestic markets and consumer habits. With regard to their low weight in the aggregate price index, the effect of price increases was reflected in the index only slightly.

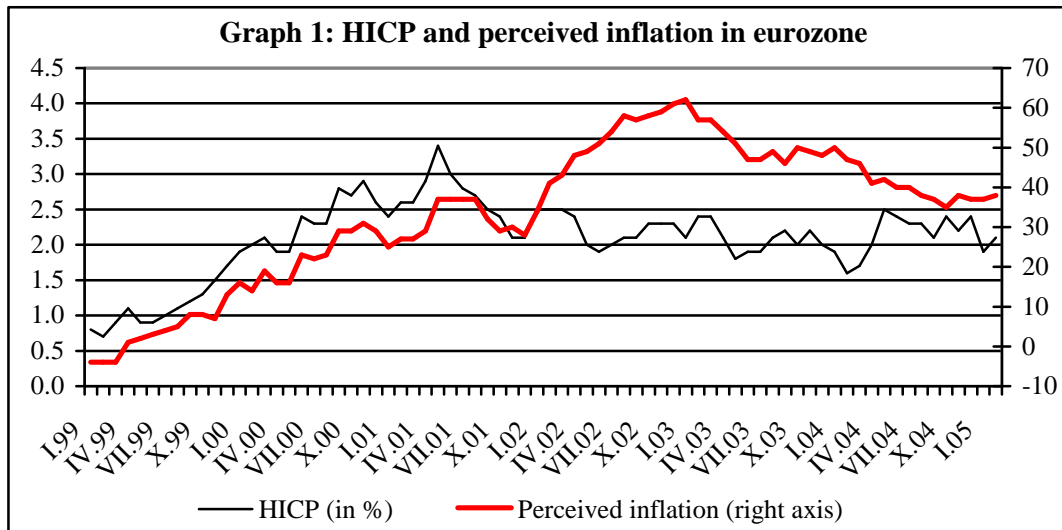
### **10.2.2) View from the side of consumers and consumer organizations**

In contrast to the official evaluations, inflation perceived by the public in the first year of the euro operation was high and in some countries there were even consumer strikes and boycotts on the consumption of certain segments of the consumer basket<sup>16</sup>. Combined with consumers distrust regarding the future development of prices abstinence and limited purchasing began to come to the fore in consumer behavior.

The sharp growth in perceived inflation following the euro introduction into cash circulation is illustrated in graph 1. The perception of a fast growth in prices intensified in the course of 2002. In 2003 the intensity of perceived inflation weakened substantially, nevertheless there remained a marked gap between it and the official HICP. The two indicators came significantly closer in 2004, when despite an acceleration of inflation as measured by the official HICP, the rate of inflation perceived by consumers fell throughout the year.

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<sup>16</sup> Consumers in Greece particularly expressed open resentment at price growth, where in September 2002 two pressure actions were seen – a general strike by consumers and a three-day boycott of fruit and vegetable purchases. In Italy in July the public protested against a 25 – 50% increase in prices at supermarkets and a 10% increase in the prices of all goods. In the summer excessive price increases were criticised also by the Federation of German Consumer Organisations.



A particular problem that contributed, following the euro introduction, to the feeling of generally high prices was the relatively widespread resistance to using coins with the lowest denominations (1 cent and 2 cents<sup>17</sup>). Consumers gave insufficient attention to seemingly small price differences at various vendors and in paying often rounded in their disadvantage (they did not request that these coins be given in change), whereby they themselves made their purchases more expensive. Moreover, by doing so, they paradoxically were giving generous tips to such services as restaurants, cafés, hairdressers, or car servicing garages, whose prices and sharp increases were generally criticized. In order to strengthen the awareness of values in euro and in order to bring about a change in consumer behavior, several countries in 2002 undertook additional information campaigns entitled “Every cent counts” and “The euro pays”<sup>18</sup>.

### 10.2.3) Main lessons learnt from the overall course of the currency changeover

Analytical studies by Eurostat, as well as studies done by eurozone member states, reached the same conclusion: the euro introduction into cash circulation did not cause any widespread increase in consumer prices in 2002. They did however confirm the longer term nature of the adaptation of prices to the new currency.

The price effects from the currency changeover were concentrated primarily in specific fields of the service sector. The most sharp, or sudden growth in prices at the start of 2002 was recorded generally in restaurants, cafes, fast food outlets, hairdressers, dry-cleaners, car servicing garages, and in some countries also in public transport, taxi services and various types of fees (car park fees, motorway tolls).

Prices of goods, which form more than half of private consumption expenditures, were for the eurozone generally not greatly influenced by the euro introduction. Nevertheless, the prices of some ordinary consumption goods which households buy frequently (e.g. bakery goods, newspapers) grew in some countries quite significantly. Where these goods had a low price, rounding caused a relatively high price increase (measured as a percentage change). Conversely, in the case of higher-value goods, this meaning also the price of durable goods, the tendency to adjust prices downwards was more prevalent – with regard to the technical progress and high competition in these markets.

<sup>17</sup>In Finland these coins were not introduced into circulation at all.

<sup>18</sup>The European Commission contributed 50% to financing this campaign.

From the course of rounding to new consumer attractive prices in euro it results that this is a longer-term process. Even if the last months of 2002 showed a substantial stabilization in price development in the eurozone, the incomplete adaptation to new prices was seen as a certain risk for future development in the eurozone. The persistence of accelerated price inflation could, in particular in countries applying wage indexation, lead to undesirable wage pressures and create the risk of cost-side inflation emerging. Over the long term however the sources of price growth pressures induced by the euro should be eliminated and the euro should have a dampening effect on price growth, since it will bring greater price transparency and competition in the eurozone. These benefits will be of a permanent nature.

Compliance with price stability agreements and the effectiveness of strict price monitoring in the period of dual pricing by official institutions was generally assessed favorably. In certain countries however fears were confirmed that firms and businesses, while withholding from price increases in the period monitored, nonetheless made price adjustments before the start or after the end of dual display <sup>19</sup>.

From the reactions of price development to the euro introduction into cash circulation an important conclusion for future price stability in the eurozone was reached: one of the crucial tasks in the process of the efficient promoting of all the systemic benefits of a common currency will be the speed at which it is managed to adapt consumer behavior to the new price structure and to suppress the phenomenon of perceived inflation.

An analysis of price development published in 2002 showed that the euro introduction did have an influence on prices in certain expenditure groups which was manifested more strongly at the start of 2002. Increased attention to the development of prices in these groups was paid also in 2003. It was nevertheless shown that the direct price effects of the currency changeover had probably been exhausted in 2002. In 2003 no unusual price movements were detected that could be directly linked to the euro introduction.

A comparison of the whole six-year time interval of the eurozone existence (1999 - 2004) (Table 10.2), which is divided by the currency changeover into two equal three-year periods (1999 - 2001, 2002 - 2004) would at first appear unfavorable for the period following the changeover, with average HICP inflation being 2.17%, against 1.83% prior to the introduction of the euro into cash circulation. However, this result is influenced by the very low HICP value for 1999<sup>20</sup>. After excluding the extreme value for this year it is clear that the introduction of the euro into cash circulation did not cause increases in average inflation values in the eurozone. Over the three-year period of its existence the average HICP value has indeed been lower (2.17%) than the average for the past two years prior to its introduction (2.2%).

**Table 10.2: Eurozone HICP for 1999-2004, annual average in %**

Transitional period without cash euro			Euro in cash circulation		
1999	2000	2001	2002	2003	2004
1.1	2.1	2.3	2.3	2.1	2.1
Average for 1999-2001: 1.83%			Average for 2002-2004: 2.17%		
2000-2001: 2.2%			2002-2003: 2.2%		

<sup>19</sup> An example is Austria, where dual pricing was governed by law (from 1 September 2001 to 28 February 2002). This regulation was frequently criticised: it was perceived as a source of substantial anticipated price increases from spring 2001 to August 2001. Prices from September were stable. In fields with a low competition (swimming pools, sports centres, etc.) prices did however increase significantly from January 2002.

<sup>20</sup> In particular in consequence of the very low HICP values in the largest eurozone economies (Germany, France) and as a whole with regard to the cyclical slowdown in the rate of economic growth in the eurozone.

### 10.3) Why consumers may perceive the rate of inflation incorrectly

Consumers form their own view of inflation by comparing the prices that they pay for certain products over the course of time. Their view is as a rule short-term – they concentrate on their most frequent and most important purchases. Experience with the euro introduction has indicated that consumers perceived its influence on prices primarily in prices for small goods and services that they purchase regularly and most frequently (daily, weekly).

Regular and frequent purchases of items such as foodstuffs, newspapers and magazines, motor fuels, bus and train transport, restaurants and cafes, or hairdressers had a determining influence in the development of perceived inflation. From mid 1999 the prices of these items grew quicker than the aggregate HICP. The higher than average growth in the prices of these items can, according to a Eurostat analysis<sup>21</sup> explain as much as half of the difference between the aggregate HICP and inflation as perceived by consumers. Besides the price consequences of the euro introduction in these items, the sudden increase in perceived inflation at the start of 2002 was also partially attributable to substantial price increases (other than those of euro origin) for other frequently purchased goods, especially alcohol and tobacco.

When the prices of certain goods and services at cafes and restaurants rose in January 2002 more than is usual, consumers noticed it. It is more difficult for an individual consumer to realize that in the case of other goods prices changed in both directions - up and down. For example, each increase in the price for a cup of coffee, attributable to the euro introduction, would be offset by only a very small percentage decrease in the price of a computer or refrigerator in order to equalize this change in the HICP.

Besides the fact itself of the (non)recognition of a reciprocal movement in prices occurring in parallel, consumer behavior is marked by significant asymmetry in assessing “gains” and “losses” which price changes bring into individuals’ satisfaction (the degree of wealth felt). The consumer attributes much lesser utility to a “gain” brought by a price decrease than to a “loss” caused by a price increase of the same amount. This is, naturally, related to the fact that a price increase directly worsens the income situation of a consumer, who is then forced to compensate it by lower consumption in other items of his/her consumer basket or dip into savings, whereas a price reduction<sup>22</sup> is not accompanied by the need to transfer this money “saved” into increased consumption in other items, or to deposit it as savings.

The ordinary consumer does not, it is true, have comprehensible statistics available and evaluates the situation based on his/her individual current and past experience. Moreover, besides the fact that he/she monitors the growth in prices and evaluates inflation based on a narrow sample of his/her most frequently purchased consumer basket, this individual is not able to directly identify which factors are the cause for a growth in prices in his/her individual items. Consumers therefore ascribed also the high prices of foodstuffs at the start of 2002 to the euro introduction (even though the cause was adverse weather), likewise they would have attributed to the euro introduction, for example, petrol price increases were the world oil prices to have increased at that time, or the price of meat were the BSE disease to have broken out several months later than it did, though actually its price effects were manifested in 2001.

At the time of the euro changeover the consumers monitored price development with extraordinary attention and reacted very sensitively to all official and informal information on price growth published in the media or spread via acquaintances experiences. The accumulation of information upon several cases of price growth could have induced in consumer perception also the emergence of a snowball effect which increased the intensity of

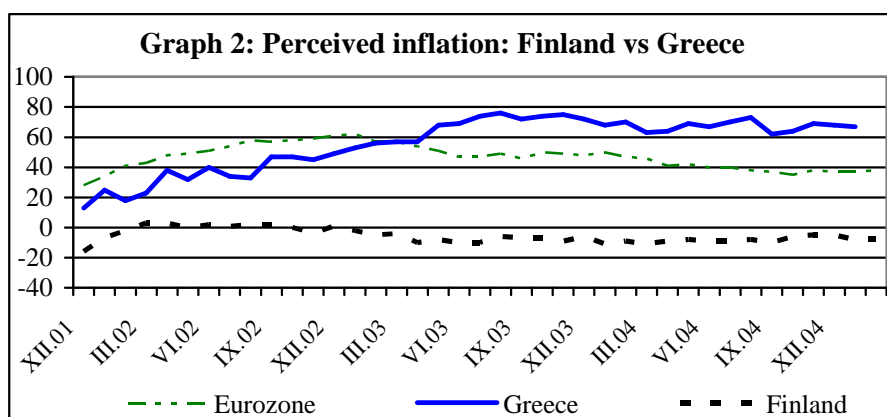
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<sup>21</sup> Euro changeover effects. Eurostat, Euro-Indicators, news release, Annex, 18 June 2003.

<sup>22</sup> In connection to the extensive practice of discount offer prices the perception of reduced prices is shifting even further – to the point position of “bargain buys”.

their own experiences with price increases and strengthened the overall impression of inflationary effects from the introduction of the euro into circulation.

The public degree of knowledge on the main aspects of the euro introduction had a very significant effect on the advance of the snowball effect and the overall intensity of perceived inflation. Sufficient information towards the public worked also as a factor strengthening credibility as to the reliable preparation of the whole operation in the currency changeover. The correlation between insufficient information and high perceived inflation, or respectively a good level of knowledge and low perceived inflation proved convincing (Graph 2). While Finland, according to opinion polls, was the country with the highest number of well-informed respondents, Greece had the lowest number. In this regard, it was these two countries which reported the lowest (Finland) and the highest (Greece) perceived inflation<sup>23</sup>.



*Comparison of perceived inflation in Greece (the country with the lowest knowledge about the euro changeover) and Finland (the country with the highest knowledge about the euro changeover)*

An additional factor that contributed in the euro changeover to an increase in perceived inflation was the population inexperience with operation in the new price environment that in consequence of complicated conversion rates was largely difficult to comprehend for the consumers. Memory of the prices from the past, or stored shopping receipts from the original currencies, could cause, sometimes quite considerable, distortion of the information on the price in euro when recalculating the prices following the cancellation of the dual pricing with the help of rounded conversion rates, and increased the size of the price change<sup>24</sup>.

To summarize: the main factors contributing to the high perceived inflation in the euro introduction were as follows:

- subjective evaluation of price development in the items of an individual (narrower) consumer basket,
- increase in prices of goods and services with lower unit prices, repeatedly and frequently purchased by consumers,
- asymmetrical perception of price increases and decreases,
- inclusion of non-euro-related causes of price increase,

<sup>23</sup> Eurobarometer, November 2001.

<sup>24</sup> For example in Austria people often used in fast conversions the 10/1 ATS/EUR exchange rate, while the precise conversion rate was 13.7603/1. In consequence of this the amount on the stored (reference) receipt in schillings, e.g. from 1999, was substantially lower than that indicated in 2003 by the recalculation of the price of the same good in euro to schillings according to the 1x10 model. Retrospective comparison of the reference price in schillings and the current price in euro generated a higher price growth than that (if any) actually occurred. A lesser error, through in the reverse price reducing direction, was naturally provided by the recalculation according to the 1x14 model.

- a snowball effect increased by personal experience with price growth,
- insufficient knowledge of population on the general facts and circumstances of the currency changeover,
- long-term memory of prices from a more distant past,
- imprecise recalculation of prices according to the rounded conversion rates.

Therefore it is desirable that a phenomenon of perceived inflation be systematically monitored, analyzed and that the whole issue is clearly communicated to the public – with specific regard to selected groups of consumers (e.g. pensioners).

#### **10.4) Outline of measures and procedures for limiting inflation acceleration during the euro changeover in the SR**

##### **10.4.1) What should be considered in the price development during the currency changeover**

Inflation, or price growth, is one of the most sensitive indicators which the population uses to measure the development of the living standard and which it will use to assess its attitude to the new currency and subsequently to the Slovak membership in eurozone and the EU as a whole. A smooth and nationwide problem-free acceptance of the euro introduction in the SR therefore requires that the preparation for its introduction covers the objective information on the expected potential price consequences from the transition to the new currency and on the activities for eliminating them and for protecting the end consumer.

To get familiarized with the value of the euro and to get used to payments in euro, the Slovak citizens – contrary to the current eurozone countries – will not have any transitional period for its voluntary use (only) in non-cash transactions, which represents a certain disadvantage. On the other hand, an advantage for all the future members of eurozone, including Slovakia, is the existence of the euro, which enables an ongoing familiarization with its value as well as visual features of individual banknotes and coins, and in the end also its (ordinary) use in cash payments.

In contrast to the current eurozone countries there will exist a certain experience base in euro changeover in Slovakia, and therefore it may be presumed that the rate of “value chaos” in the new price environment will be lower. Consumers will probably be less prone to make their payments in euro more expensive, at the expense of “their own mistakes”, by for example using coins with the lowest denominations.

For illustration of current knowledge and experience of the Slovak public with the cash euro we state some results of a poll<sup>25</sup> from October 2004:

- 45% respondents had already held in their hand euro banknotes as well as coins; 39% had not yet held them at all,
- most respondents considered as the greatest benefits of the euro introduction making travel abroad simpler and making payments in shops simpler,
- most respondents marked price growth, making things more expensive, as the greatest disadvantage in the euro introduction,
- price increases following the euro introduction were expected by more than four fifths of respondents (46% expect significant price growth, 37% a slight price increase),
- of the specific requirements of citizens for information on the euro, the most requested was that on the impact of the euro introduction on prices (17% of those

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<sup>25</sup> The research was conducted by the Institute for Public Opinion Survey at the Statistical Office of the SR by means of its poll inquirers in the period from 1 – 8 October 2004, on a sample of a representative sample of 1111 respondents aged 18 and above.

asked), where it is necessary to add to this group also the requesters for all information (15%).

The temporarily higher perceived inflation in consequence of price rounding in the currency changeover must be counted with also in Slovakia. It will however not be any price shock or across-the-board phenomenon. Though it will be concentrated in the consumer most perceived items of goods and services, it will nevertheless be a very short-term phenomenon. In the case of durable goods and services, which are ever more frequently bought in the form of non-cash payments, we can from the operation of the “rule of one price” expect rather an opposite downward price effect. As for tradable goods, price growth will be offset by competition.

A slight price growth will naturally happen also following the euro introduction. However, this price increase will be connected with faster economic growth and the process of prices catching up in Slovakia (by way of real convergence to the European average) and will be accompanied by corresponding wage growth. Slovakia will not avoid either the short-term price shocks, which will be caused by the development in world oil prices and other energy raw materials, conditions for agricultural production, or, for example, the price policy of network industry regulators.

#### **10.4.2) How to address unjustified price increases**

In order to eliminate impulses which could, in connection with the currency changeover, cause inflation acceleration, it is first and foremost necessary to achieve an atmosphere of general consensus among general government and private business sector institutions and to ensure via consumer organizations also cooperation from the side of the public. A key condition and at the same time the main instrument for achieving this nationwide consensus is sufficient relevant information, and primarily suitable means for its diffusion among the public so that each citizen has not only the possibility to access this information, but is also actually informed on the main aspects of the euro introduction in the SR.

- Procedures and measures that can be applied by state bodies and general government institutions:
  - declaration by the state that the euro introduction will in the case of citizens have a neutral nature in terms of price and income, i.e.:
    - regulated prices will be recalculated precisely according to the conversion rate,
    - prices, fees, wages and payments in the public sector as well as all types of pensions, benefits and taxes will be recalculated according to the conversion rate, or be rounded in favor of the citizen,
  - to initiate the achievement of agreements on non-increasing of prices (on price stability) with business associations,
  - to draw attention in the public media to companies refusing the price stability agreement or breaching them,
  - for a period of several months prior to the euro introduction, when the conversion rate is already known, to issue for all retail sector subjects a recommendation, or to set an obligation to apply dual display of prices in koruna and euro,
  - for a period of twelve months following the euro introduction to order compulsory dual pricing in euro and koruna, including a suitable provision of information on the conversion rate,
  - monitoring of prices at very short intervals should be performed by the Statistical Office of the SR throughout the period of dual pricing (prior to and

- following the conversion date), but also for a certain time following its cancellation (danger of a new price jump),
- special attention, in particular in the first weeks following the euro introduction, should be paid, in the form of monitoring the narrowed consumer basket, to prices for daily consumption goods and services,
  - to ensure for citizens permanent access to information on the:
    - conversion rate,
    - conversion rules from koruna to euro,
    - appearance, value and security features of euro banknotes and coins,
  - to set up a telephone line for the public to report identified cases of breaching the set, or agreed, rules of the currency changeover and of abusing the euro introduction for unjustified price increases,
  - for suppressing unjustified high perceived inflation from the side of consumers to ensure, via public media, clear communication of up-to-date price development with the emphasis on potential extraordinary causes for price growth, not connected with the currency changeover operation.
- Procedures which can be adopted by the private business sector:
    - declarations (commitments) of retail chains and retail associations that in the period of dual pricing they will not increase prices and to comply with these commitments,
    - in each shop or other retail facility to place in a visible place a table with the conversion rate in order to facilitate the conversion of prices from koruna to euro and vice versa,
    - retail chains may, in the interest of promoting competition, adopt strategies of consumer-advantageous rounding to psychological prices, the result of which should, prevailingly, be a price reduction.
  - What consumers can do:
    - pay increased attention to information on price development and learn to distinguish which price increases are a result of euro introduction and which are a result of other causes,
    - in order to create (relatively reliable) reference prices, to store a certain time in advance (approx. 1 year) to the euro introduction receipts for their typical payments, which they will be able to compare to the payments in euro,
    - carefully monitor price development in the period of dual pricing and to learn to use information on dual pricing,
    - in the first payments in euro (in particular in the case of large purchases) to give preference, in making check recalculations, to calculators rather than rough recalculations from memory according to a simplified conversion rate,
    - to not pay extra for purchases and tips for services provided: from the start of using euro to bear in mind that also the coins with the lowest denominations have a real value (“every cent pays”),
    - to draw attention to vendors and firms abusing the euro changeover for price increases.

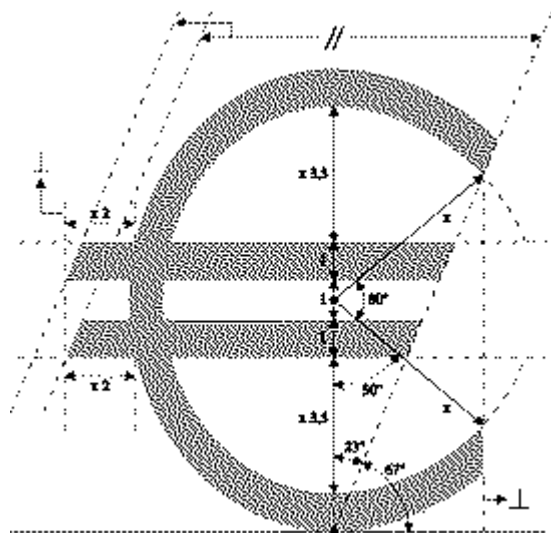
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## 11. Appendix 2: Common symbols of the information campaign

### 11.1) € sign



### 11.2) Common logo and slogan



[translation: EURO. OUR currency]

## 12. Appendix 3: Glossary

Big Bang	Simultaneous introduction of the euro into cash as well as non-cash circulation, without transitional period.	
BRIBOR	Bratislava Inter Bank Offered Rate	Reference interest rates in the SR and eurozone
EURIBOR	Euro Inter Bank Offered Rate	
SKONIA	Slovak Overnight Index Average	
EONIA	Euro Overnight Index Average	
MRO	Main refinancing operation of the ECB.	
€Day	Day of introducing euro into circulation, in Slovakia on 1 January 2009	
Pension unit	Value of the client investment in the old-age pension saving system, expressed in units which are regularly evaluated.	
Dual pricing	Expression of money values in both koruna and euro, or reporting the money amounts in parallel in both currencies.	
Dual display	Provision of information on dual pricing to the citizen. The manner of dual display in individual cases will differ depending on the type of good or service provided.	
Dual statement	A statement for clients and citizens, in which the values will be stated in a dual mode.	
Dual circulation	The period, during which it will be possible to pay both in euro and Slovak koruna in Slovakia.	
ERM (Exchange Rate Mechanism II)	II	Exchange rate mechanism, in which the currency of each country must operate for at least 2 years prior to the convergence evaluation. The aim of this mechanism is to prepare the economy for functioning in the monetary union.
Euro-Partner	Any commercial or non-commercial entity which undertakes to communicate, within its ordinary activity, over the certain time period, issues related to the introduction of the new currency. This entity will develop these activities at its own expense and thus obtain the right to use the official Euro-Partner logo throughout the communication campaign.	
Umbrella law	The main legal rule giving the basic legal framework for the euro introduction in Slovakia – the Act on Certain Measures Related to the Introduction of the Euro as the Legal Tender in the Slovak Republic.	
Harmonization of law	Harmonization of European legal standards with the Slovak legal standards.	
HICP	The Harmonized Index of Consumer Prices is an indicator of price level, used in the EU, enabling an objective comparison of individual countries inflation at the same basis.	
IBAN	International Bank Account Number. Its purpose is to enable automatic processing of cross-border payments.	
Implementation of law	Transposition of European legal standards into the Slovak legal regulations	
Conversion Rate	Conversion rate determined by the EU Council, by which values in koruna are recalculated to euro.	
Nominal value	Nominal value of securities, e.g. shares.	
Unjustified price increase	An increase in prices not caused by market forces, but by abusing a dominant position or weak consumer knowledge.	
POS (Point of sale) terminal	A payment terminal which makes possible payments by debit or credit payment cards.	
Transition period	A period between the introduction of non-cash and cash euro. When the	

eurozone was established this transitional period lasted from 1 January 1999 to 31 December 2001. Slovakia does not plan any transitional period.

PRINCE	Partnership program enabling to use European Commission funds for co-financing selected communication projects and information materials.
Re-denomination	Recalculation of the registered capital and nominal values of shares (including stocks), which are expressed in koruna, to euro.
SIPS (Slovak Interbank Payment System)	Interbank payment system of the Slovak Republic, which processes all non-cash payments in Slovak koruna.
Statutes of ECB	Basic ECB rules, component of the Treaty establishing the European Community.
TARGET 2	Trans-European Automated Real-Time Gross Settlement Express Transfer System 2. It is a system covering the European territory, serving to clear payments in euro in real time.
Perceived inflation	Inflation according to the consumers estimates, measured by public opinion surveys.
Derogation	Temporary relief for an EU member state from the obligation to introduce euro as the legal tender. The derogation may be abrogated by the EU Council.