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

**The introduction of the euro in Slovenia**

## 1. INTRODUCTION

Following Slovenia's request of 2 March 2006 for a convergence assessment based on Article 122(2) EC, the Commission and the ECB prepared their respective Convergence Reports<sup>1</sup>, examining whether the country had achieved a high degree of sustainable convergence, notably with respect to the "Maastricht" convergence criteria laid down in the Treaty. Following the Commission's proposal of 16 May 2006, the Council decided on 11 July 2006 to abrogate Slovenia's derogation. It furthermore decided Slovenia's euro adoption date (1 January 2007) and the conversion rate of its national currency vis-à-vis the euro (239.640 tolar for one euro).

Following this confirmation of Slovenia's entry into the euro area, the country intensified and finalised its practical preparations for the changeover to the euro. Slovenia's Masterplan for the euro changeover is based on the so-called "Big-bang" scenario,<sup>2</sup> whereby euro banknotes and coins are introduced on the same day as the date of adoption of the euro (1 January 2007 in the case of Slovenia). The period of dual circulation, during which both the Slovenian tolar and the euro were legal tender extended from 1 to 14 January 2007, after which date the euro became sole legal tender.

While Slovenia benefited from a number of favourable conditions, its timely and meticulous preparatory work ensured a successful changeover. The present communication presents the salient aspects of the country's changeover, in particular with respect to the cash changeover, the conversion of administrative and financial systems in the public and private sector, price developments (and perceptions thereof) linked to the changeover and the citizens' overall judgment of the changeover to the euro. Finally, this Communication draws the main lessons for future changeover experiences.

## 2. THE EURO'S SWIFT ENTRY INTO SLOVENIANS' DAILY LIFE

As their country is adjacent to two euro-area countries (Italy and Austria), most Slovenian citizens were already familiar with the euro well before it became their national currency. Survey results in the new Member States<sup>3</sup> indicated that the Slovenes were the ones who were most familiar with euro cash, since 95% had already seen euro banknotes (against an average of 77% for the ten new Member States) and 93% had already seen euro coins (against an average of 70%). Similarly, many had already used euro banknotes (80%) or euro coins (77%). Well before 1 January 2007, many Slovenian citizens and enterprises owned certain amounts of euro cash, or had opened a euro bank account.

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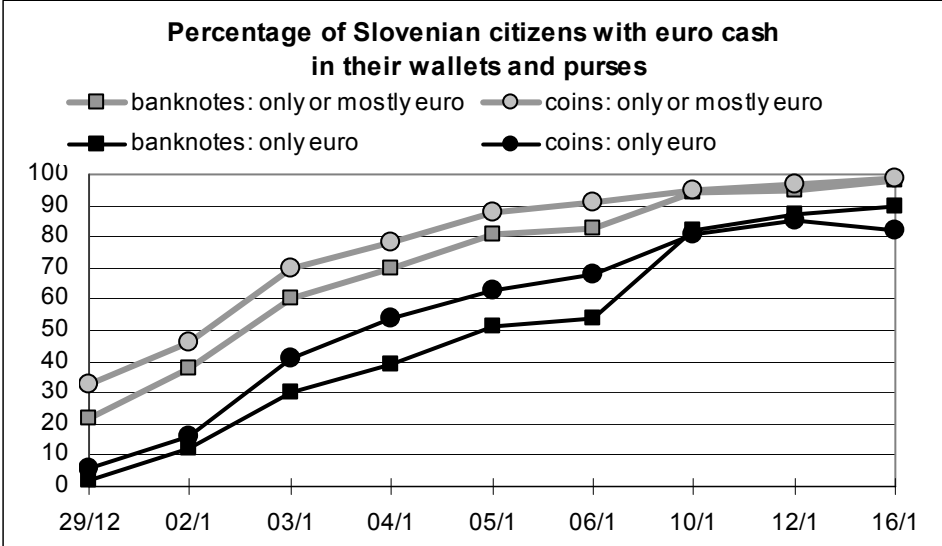
<sup>1</sup> COM(2006)224 of 16 May 2006 and ECB May 2006 Convergence Report.

<sup>2</sup> The current euro-area countries introduced the euro in accordance with the "Madrid" scenario, which involved a transitional period of three years, as the euro became their currency in 1999 (2001 for Greece), while euro banknotes and coins were only introduced in 2002.

<sup>3</sup> Commission Flash Eurobarometer survey 191, conducted in September 2006.

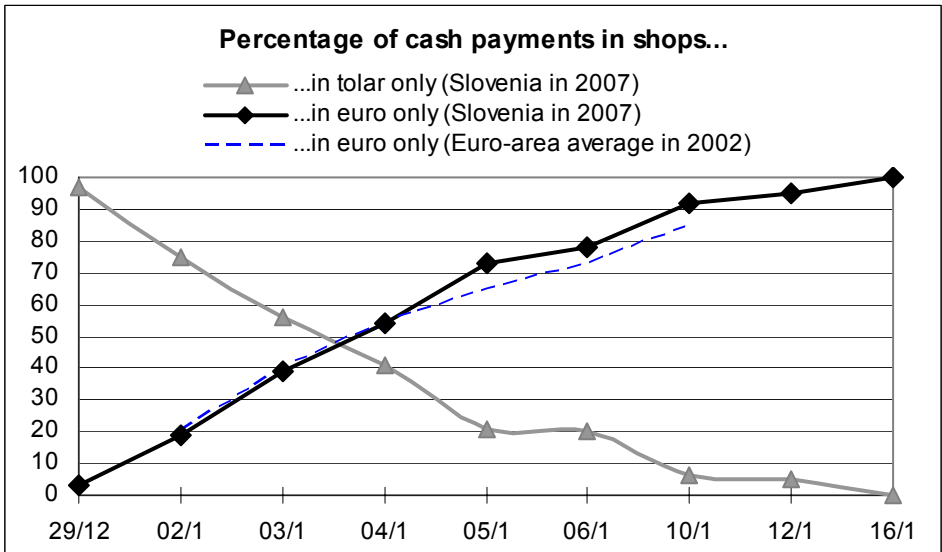
Once the euro became legal tender on 1 January 2007, its relative share in circulation quickly gathered pace as illustrated in Graph 1 which is based on the results of a daily telephone survey organised for the Commission among a sample of the Slovenian population, asking respondents to report on the content of their wallets and purses. Already on 5 January (evening), more than half of the respondents reported that they had only euro banknotes and coins in their wallets and purses.

**Graph 1**



Respondents were also asked to report on their latest cash payment operations (see Graph 2). On 4 January 2007, more than half of all cash payments were conducted in euro. The share of euro payments continued to climb steeply in subsequent days. Graph 2 furthermore illustrates the similarity of the euro's progress with the evolution observed on average in the euro area during the first-wave experience in 2002.

**Graph 2**



While Slovenia generally benefited from favourable circumstances, the successful transition from tolar to euro should definitely be attributed to the quality and timeliness of the country's practical preparations for the introduction of the euro, which had already started in earnest before January 2005, when the country's national changeover plan was adopted.<sup>4</sup> The different elements which have contributed to this success are further analysed in this communication.

**The Slovenian changeover to the euro clearly confirms the first-wave experience that pro-active and timely preparations pay off. Well-prepared countries are rewarded in terms of the speed and the smoothness of their national changeover, and the positive perception of their citizens.**

### 3. THE SLOVENIAN CASH CHANGEOVER

The cash changeover constitutes the most visible element of the national changeover. Virtually all citizens and enterprises are directly concerned by this operation. Its success is largely dependent on the early supply by the national central bank, i.e. before the euro changeover date (€-day), of euro banknotes and coins to banks and other financial institutions ("frontloading"). In turn, banks try to ensure that enterprises involved in cash-related operations, and retailers in particular, are supplied with euro cash before €-day, notably to allow them to be able to give change exclusively in euro, hence avoiding the recycling of legacy currency. While bringing euro cash into circulation, banks and retailers at the same time need to cope with the rapid backflow of legacy cash.

#### 3.1. Frontloading and sub-frontloading operations before €-day

The Bank of Slovenia received a total of 94.5 million banknotes with a face value of €2,175.0 million from the Eurosystem's logistical stocks<sup>5</sup>. A total of 296.3 million euro coins with a face value of €104.0 million were supplied by the Mint of Finland<sup>6</sup>.

The frontloading operations of credit institutions with euro coins started on 25 September 2006, and on 29 November 2006 as regards euro banknotes. In total, the Slovenian banks received euro banknotes worth €772 million and 250 million coins (representing some €84 million) before the end of 2006.

The sub-frontloading process of retailers and other enterprises by credit institutions started in the course of December 2006. Sub-frontloading represented 0.9% in value of the total frontloaded amount as far as euro banknotes are concerned, and 7.4% in value as regards coins. This includes the supply of pre-packed starter kits for professional clients worth €201 each as well as the 450.000 mini-kits (worth €12.52 each) containing one or more euro coins of each denomination which were made available by banks to the Slovenian public as from 15 December 2006 and were almost sold out. Sub-frontloading played a relatively modest role compared to the cash changeover in 2002. However, many Slovenian enterprises and citizens had acquired, or already owned, euro cash collected through other channels.

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<sup>4</sup> See also the Commission's Fourth Report on the practical preparations for the future enlargement of the euro area (COM(2006)671 of 10 November 2006).

<sup>5</sup> Data relating to the cash changeover were provided by the Bank of Slovenia and the ECB.

<sup>6</sup> Slovenia has no national mint and selected the Finnish mint as coin supplier following a public tender procedure.

### 3.2. The period of dual circulation

The Slovenian authorities decided to keep the period of dual circulation as short as possible. The original Master plan, adopted in January 2005, provided for a period limited to a single week, although this was subsequently extended to two weeks in a later version of the plan. This duration was considerably shorter than the dual-circulation periods applying in 2002, which differed from country to country and often extended over a period of up to two months<sup>7</sup>.

While commercial banks only opened on 3 January 2007, some of them opened a few of their branches (52 in total across the country) on 1 and 2 January for cash exchange operations only. In addition, the Bank of Slovenia opened its own counter.

The conversion of automated teller machines (ATMs) proceeded at a rapid pace as two thirds of the country's 1,500 ATMs were ready to dispense euro notes on 1 January 2007 at 4 a.m., while more than 93% were fully euro-operational by the end of that same day. The conversion of the ATM machine park was completed by 3 January. The speed of the ATM conversion is broadly similar to what was observed in 2002.

However, the low number of ATM transactions in the early days of January 2007, well below the average daily transaction volume, differs markedly from the first-wave experience in 2002, when peak loads were registered in terms of the number of daily operations and the value of withdrawn cash as citizens massively turned to cash dispensers in order to acquire their first euro notes. People's eagerness can be partly explained by their curiosity to discover the new euro notes. This curiosity effect was virtually inexistent in Slovenia, as the population was largely familiar with euro cash well before the country adopted the euro. Furthermore, the data collected via telephone survey on 29 December 2006 (see Graph 1) confirmed that a meaningful part of the population already owned euro cash before €-day. In general, citizens and enterprises had no difficulty at all to acquire euro cash, even well before €-day.

The conversion of the Point-of-Sale (POS) payment terminal network was completed in the early hours of 1 January 2007. The number of POS operations from 3 January, when shops opened again, to 6 January quickly reverted to normal levels.

**The wide availability of euro cash, both before and after €-day, made an important contribution to the smoothness of the cash changeover. While the speed of the cash changeover was very similar to the first-wave experience in 2002, citizens and enterprises had more time and opportunity to acquire the necessary amounts of euro cash.**

**The Slovenian cash changeover furthermore confirms the technical feasibility of a short (2-week) period of dual circulation, which contributes to minimise the burden on retailers and other businesses.**

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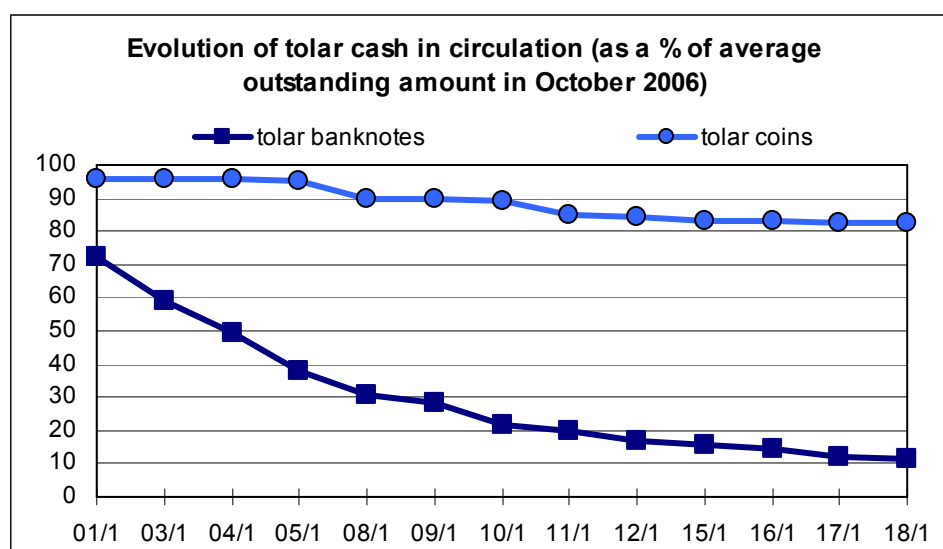
<sup>7</sup> The period of dual circulation lasted from 1 January to 28 February 2002 in nine countries (BE, GR, ES, IT, LX, NL, AU, PT, FI). It ended on 9 February 2002 in IR and on 17 February 2002 in FR. The period was reduced to nil in DE, although DEM cash could be used until 28 February 2002 on the basis of a joint declaration of retail and banking associations.

### 3.3. The speedy return of legacy cash

The backflow of tolar cash started in November and December 2006 (some banks offered their customers the deposit of euro cash on their bank account at the conversion rate and without charges as from 1 December 2006). On 1 January, close to 28%<sup>8</sup> of the total outstanding value of tolar banknotes had been returned; the value of returned tolar coins was still negligible compared to total circulation.<sup>9</sup>

The backflow of legacy cash continued at a sustained pace (see Graph 1): more than half of the outstanding value of tolar banknotes had already been returned on 4 January 2007 and more than 80% on 11 January 2007. At the end of January, only 8.5% of tolar banknotes was still in circulation. This compares very favourably with the euro area situation in 2002, since only 40% of legacy notes were returned by mid-January and 70% by the end of January. The return of tolar coins was much more gradual (see Graph 1), as 71.5% was still outstanding at the end of January.

Graph 3



**The rapid return of legacy currency, which caused severe bottlenecks during the first-wave transition in 2002, was remarkably swift, particularly regarding tolar banknotes.**

Cash exchange free of charge was still possible at banks until 1 March 2007. Thereafter, the Bank of Slovenia still exchanges tolar banknotes free of charge for an unlimited period, and tolar coins until the end of 2016.

<sup>8</sup> The total value of tolar banknotes in circulation on 31.12.2006 amounted to SIT 149,631 billion (€622.7 million), representing 72.1% of the average value of tolar banknotes in circulation in the course of October 2006 (SIT 207,039 billion corresponding to €864.0 million).

<sup>9</sup> The total value of tolar coins in circulation on 31.12.2006 amounted to SIT 3,602 billion (€15.0 million), representing 96.0% of the average value of tolar coins in circulation in the course of October 2006 (SIT 3,752 billion corresponding to €15.7 million).

As a direct service to the general public, and pursuant to Art. 52 ESCB/ECB, the national central banks of the Eurosystem have taken measures to ensure during the first two months of 2007 that tolar banknotes, up to a counter value of €1,000 for any given party/transaction on any one day, will be exchanged into euro at par value in at least one location in their national territory (similar arrangements were in place during the 2002 cash changeover).

#### 4. THE CONVERSION OF FINANCIAL ADMINISTRATIVE SYSTEMS

The some 2.3 million bank accounts held by private persons and legal entities were successfully converted in euro. During the first days of January, much more people than usual turned to ATMs to verify the balance of their account in euro.

Regarding the conversion of administrative, financial, accounting and other related systems, the "Big-bang" scenario is much more demanding than the "Madrid" scenario applied during the first wave. Indeed, the majority of public administrations and private enterprises benefited at the time from a three-year transitional period extending from 1999 to 2001 (one year in the case of Greece) to convert these systems to the euro. As the "Big-bang" scenario does not allow for such a transitional period, all Slovenian administrations and enterprises were expected to operate exclusively in tolar up to 31 December 2006, and switch all their systems to the euro as from 1 January 2007.

The Slovenian enterprises and public administrations have successfully met the challenge by preparing themselves adequately and in good time. According to information collected by the Flash Eurobarometer 201a conducted in February 2007,<sup>10</sup> 31% of Slovenian enterprises started their preparations in the first half of 2006 or earlier, while 64% started after June 2006. More than 94% of Slovenian businesses confirmed that their accounting, invoicing and payroll systems were fully ready for switching to the euro on 1 January 2007. No particular problems were experienced or reported.

**The changeover in Slovenia confirms the relevance of the "Big-bang" approach for future entrants, in particular for smaller countries. Since euro cash is available since 2002, this scenario appears to be the most appealing one for future euro-area entrants, notably because of its simplicity in terms of communication and information.**

#### 5. PRICE DEVELOPMENTS

##### 5.1. Price monitoring during the changeover

The dual display of prices started in March 2006 and will continue by law until mid-2007. The Slovenian Consumers' Association has been monitoring prices (PriceWatch) while also benefiting from consumer input, since it invited the public to report significant price rises, as evidenced for example by a comparison of old receipts and invoices (in tolar) and new bills (in euro). Any major price rises which are confirmed after verification are reported to the public on a regular basis. This reporting policy helps consumers to immediately spot price rises and thereby contributes to limit possible abuses.

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<sup>10</sup> See [http://ec.europa.eu/public\\_opinion/euro\\_en.htm](http://ec.europa.eu/public_opinion/euro_en.htm) for all Eurobarometers on the euro.

The Slovenian Consumers' Association furthermore emphasised that the costs of banking services have significantly increased in the course of 2006. The Consumers' Association claims that banks started as from early 2006 to increase the cost of some of their services (e.g. fees for ATM cash withdrawals). As regards payment services for consumers (account management, online banking etc.), significant price increases were noticed between March and December 2006 at certain banks, while small businesses complained about high fees for cash deposits.

## **5.2. Price evolutions from December 2006 to February 2007**

The annual HICP rate for January 2007 in Slovenia was 2.8%, down from 3.0% in December 2006. It showed a declining month-on month rate (-0.5%), as has been the case for the last few years in January, due to the impact of seasonal sales. The decline in January 2007 was slightly larger than the one observed in the same month of previous years, mainly as a result of changes in energy prices, the Statistical Office of the Republic of Slovenia (SORS) reported. The annual HICP inflation rate fell further to 2.3% in February 2007.

In January 2007 SORS released its first analysis of the impact of the changeover on prices in December 2006. Some unusual price rises in restaurants, bars and coffee shops have been observed, as were price increases in some other expenditure groups (personal services, footwear services, repair of household appliances, repair services, and transport services). In December 2006, the impact of unusual price increases in restaurants, bars and coffee shops was estimated at up to 0.12 percentage points, with an additional impact of 0.12 percentage points from the other expenditure groups. For January 2007, SORS has highlighted some further unusual price increases for the same purchases and additionally for recreational and sports services.

Based on the preliminary information reported by SORS, Eurostat considers that the likely total impact of the changeover on consumer price inflation during and after the changeover period could reach the order of 0.3 percentage points. Taking account of the fall in the all-items annual HICP inflation rate in January 2007 to 2.8%, and the further fall in February 2007, this result also shows that the changeover effects, although noticeable, do not seem to be of such a magnitude as to drive consumer price inflation as measured by the all-items HICP. These observations appear very much in line with the experience of the first-wave changeover.<sup>11</sup> The Institute of Macroeconomic Analysis and Development of Slovenia has also carried out an analysis of the effect of the changeover on inflation. Its preliminary conclusion is that the total effect on the CPI amounted to 0.24 percentage points.

Eurostat will update its conclusions concerning the impact of the changeover if necessary, as further information becomes available.

## **5.3. Price perceptions**

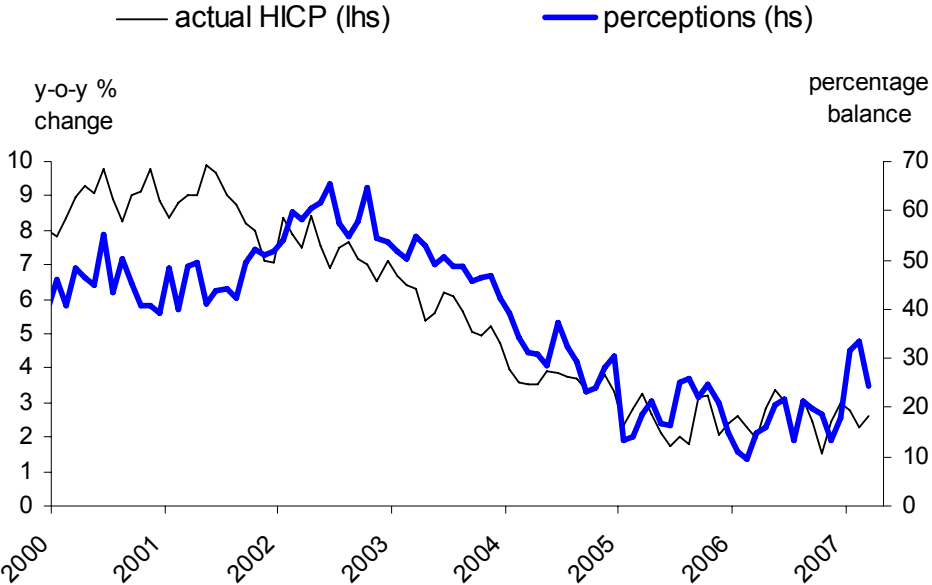
The similarity with the first-wave experience also applies to price perceptions, since perceived inflation in Slovenia markedly increased in January 2007, and rose slightly further in February (see Graph 4), despite the fact that prices declined overall during these two months. However, inflation perceptions declined slightly in March. Even though it is too early to draw conclusions, this decline would suggest that the intensified communications efforts of the Slovenian authorities are being effective.

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<sup>11</sup> Eurostat [News Release 69/2003 of 18/06/2003](#).



**Graph 4**  
**Actual and perceived inflation in Slovenia**

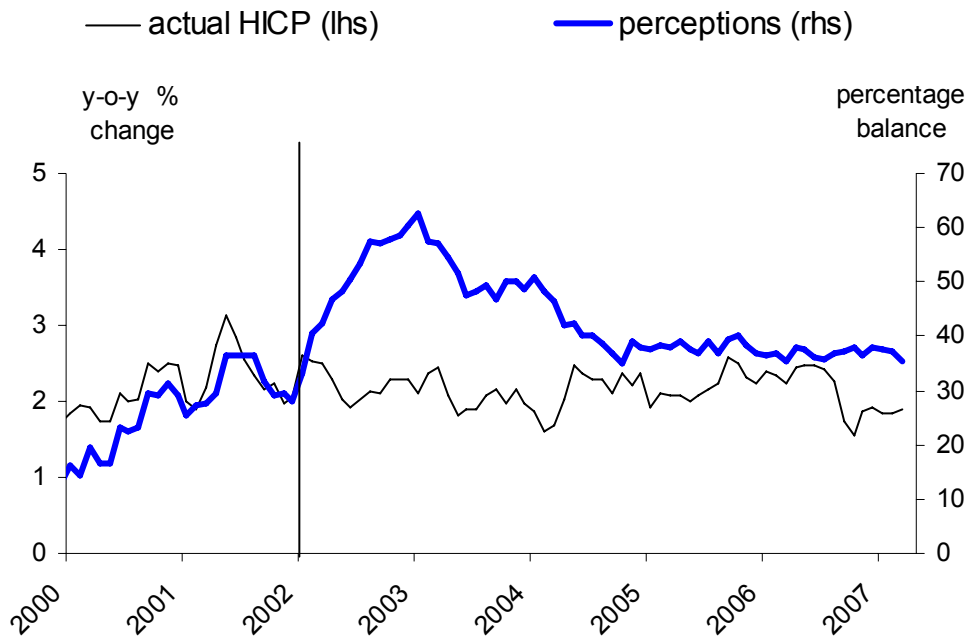


*Source: Eurostat*

If the results for March were confirmed by further data, the pattern in Slovenia may end up being quite different from the one observed in the euro area, where perceived inflation climbed steeply and consistently for almost a full year after the introduction of euro banknotes and coins in 2002 (see Graph 5). Five years after this event, the gap between the two series is gradually closing but has not been eliminated yet.

## Graph 5

### Actual and perceived inflation in the euro area



Source: Eurostat

**The Slovenian changeover experience illustrates once more that perception, expectation and reality with respect to price evolutions do not necessarily go together. A change of currency affects people's scales of values and triggers a gradual mental adjustment process, all of which plays a role in this process. Price perception definitely remains a key concern for future changeovers.**

## 6. THE PUBLIC'S REACTION TO THE EURO CHANGEOVER

The Commission's Flash Eurobarometer 205, which was conducted towards the end of January 2007, confirms the satisfaction of the large majority (95%)<sup>12</sup> of Slovenian citizens about the smoothness and efficiency of the changeover. This constitutes an excellent result compared to the first-wave experience, as only a few countries reached the 90% level, while the average was close to 80%.

With respect to the cash changeover, 97% experienced no problems at all when exchanging tolar cash into euro cash or withdrawing euro cash in the first week of January. Respondents were also positive about the usefulness of dual displays of prices (84%) and about their correct implementation (94%).

The picture is more mitigated with respect to price conversions, which are generally believed to be fair by a small majority (56%) of respondents, with 44% holding the opposite view. Only a minority of 38% is prepared to believe in the fairness of the "rounding" of prices during and after the changeover, with 62% believing the opposite.

Finally, 92% of Slovenian citizens feel well informed about the euro (36% consider themselves even very well informed), and 91% are either rather satisfied or very satisfied with the information provided by the national authorities. These very high approval rates corroborate the high degree of satisfaction on the degree of information (99.2%) measured by a similar Eurobarometer survey conducted in February 2006 among Slovenian enterprises.

**The state of public opinion in Slovenia confirms once more the crucial role of information and communication in ensuring a successful changeover process.**

**Citizens and enterprises who are fully informed about the practical consequences of the euro systematically feel more confident about the introduction of the single currency and appear to have minimal difficulties. Inversely, lack of information typically instills apprehension and misunderstanding.**

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<sup>12</sup> The percentage shares in this section are based on respondents providing a specific answer, and do not take account of those without an opinion on the matter.