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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**

Seventh report on the practical preparations for the future enlargement of the euro area

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1. INTRODUCTION

As of January 2008, the euro area comprises 15 out of 27 Member States of the EU. Among the remaining 12 countries, 10 are the 'Member States with derogation' which are expected to adopt the euro once they fulfil the conditions prescribed by the Treaty.¹ Denmark and the United Kingdom are not bound to adopt the euro.

In addition to meeting the convergence criteria, the countries need to undertake extensive practical preparations in order to prepare all sectors of their economies, administrations and citizens for the introduction of the euro. In order to facilitate countries' preparations for the changeover, the Commission has built on the experience acquired in the course of the introduction of euro cash in 2002, 2007 and 2008 in order to prepare a 'Recommendation on measures to facilitate future changeovers to the euro'². The countries preparing for the changeover are all invited to take this Recommendation into account.

The present Report assesses the state of play of the practical preparations for the changeover in Slovakia which will enter the euro area on 1 January 2009, following the Council's decision concluding that it fulfils the necessary conditions for the adoption of the euro. The attached Commission Working Paper provides for details on the preparations in the other Member States concerned.

2. STATE OF PREPARATIONS IN SLOVAKIA

Slovakia will adopt the euro on 1 January 2009 under a 'big bang' scenario.

The National Plan for the Introduction of the Euro adopted in July 2005 set the general framework for practical preparations for the changeover and specified the tasks of the various sectors of the economy and public administration. The Plan was updated in March 2007 and in April 2008.

The regulatory framework of the changeover was set in an 'umbrella law'³. This text was discussed extensively with the European Commission, as the law was also intended to remove

¹ The fulfilment of the 'Maastricht' convergence criteria is regularly assessed by the Commission and the ECB in the convergence reports. The latest convergence report (COM (2008)248) was adopted on 7 May 2008.

² Commission Recommendation of 10 January 2008 on measures to facilitate future changeovers to the euro (2008/78/EC).

³ Act No.659/2007 Coll. of 28 November 2007 on the introduction of the euro in Slovakia and amendments to certain acts.

all incompatibilities and imperfections identified in the previous convergence reports. The 'umbrella law' defines the principles and rules to be respected during the cash and non-cash changeover (e.g. continuity of contracts, price neutrality and protection of the economic interests of citizens, compulsory dual display of prices), designates the control bodies, sets the sanctions for potential breaches of the rules and provides for the necessary amendments of other legal texts.

2.1. Steering and organisation of the changeover

The steering body of the preparations is the National Coordination Committee (NCC), chaired by the Minister of Finance (the National Coordinator) and co-chaired by the Governor of the National Bank of Slovakia (NBS). The NCC supervises the fulfilment of the National Plan for the Introduction of the Euro.

The government has also created an ad-hoc post of 'Government Plenipotentiary for the Introduction of the Euro', who should coordinate day-to-day preparations and point at eventual problems. The technical details of the preparations are discussed at the level of five Working Committees; each of them being supervised by a different Ministry or the NBS.

The Working Committees held regular meetings and report on their activities to the NCC and to the Plenipotentiary at least every three months. Each committee is composed of representatives of relevant government and non-government organisations.

- **Slovakia has respected the provision of Article 1 of the Recommendation 2008/78/EC: 'Member States should set up appropriate and dedicated structures to plan, coordinate and facilitate all the necessary preparation for the introduction of the euro'.**
- **There are however some doubts on the efficiency of the existing coordination structure. The NCC is set at a very high political level and can not really enter the technicalities. The office of the Plenipotentiary has a very limited staff and focuses therefore mainly on communication issues. The central monitoring of Slovakia's preparations to the euro should be reinforced with a view to improving the coordination of the actors and being able to solve efficiently potential crisis situations.**

2.2. Preparations of public administration

The preparations of State administration bodies, regional administrations and municipalities are steered by the Working Committee for Public Administration. The National Coordinator recommended all administrative bodies to create euro coordination teams. A study on preparations for IT systems conversion made for the Committee shows, that as of June 2008, almost 80% of central, regional and local administration bodies had a list of IT systems requiring adaptation; but only 18% had actually launched tests of the newly converted systems. This early audit was intended to motivate the public administration bodies to launch the preparations: the results of the next screening rounds are expected to present substantial improvements.

Central and regional administrative bodies have their own staff training strategies and they are working on adapting the official forms, reference values and thresholds. The State budget is under preparation in Slovak koruna and will be recalculated into euro. The costs of preparation for the changeover were incorporated into the 2008-2009 budgets. According to

the provisions of the 'umbrella law' all citizens' payments to the public budgets are to be rounded down, whereas the expenses of the public budgets are to be rounded up.

- **Slovakia has elaborated a comprehensive strategy for the adaptation of the administration to the euro.**
- **More attention should nevertheless be paid to the practical training of the officials dealing with cash and/or in direct contact with the public.**

2.3. Ensuring a quick introduction of euro cash

The preparations for the introduction of euro cash and the withdrawal of koruna cash from circulation are under the competence of the National Bank of Slovakia.

- Euro notes and coins needed

In order to replace Slovak koruna cash in circulation, the NBS has ordered 188 million euro banknotes and 500 million euro coins. The banknotes will be borrowed from the Austrian National Bank while the coins will be minted by the Slovak Mint of Kremnica. The Mint of Kremnica has performed successfully the trial strikes for the production of the Slovak euro coins. The production and storage facilities will shortly move to the reconstructed premises fulfilling high security standards. Since the Mint is experienced in supplying high volume orders to foreign clients, it should not encounter any difficulties in minting the Slovak euro coins.

- Withdrawal of national cash from circulation

The NBS expects a return of some 165 million banknotes and 425 million coins (with a total weight of 1900 tons). To ensure sufficient storage and processing capacities, Slovak koruna cash destruction will start before the beginning of the frontloading period. The retrieved koruna notes will be stored and destroyed in the NBS premises, while the coins will be concentrated and demonetised mainly in the Mint of Kremnica.

- Frontloading and sub-frontloading of banks

The **frontloading** of commercial banks with euro cash will start in October 2008. The NBS will open a special remote branch in charge of coordinating the frontloading of euro coins in the premises of the Mint of Kremnica. The NBS signed the frontloading contracts with 16 commercial banks. The contracts are based on the May 2008 banks' estimations of frontloading euro cash needs. The ordered amounts of banknotes are rather low: 51 million euro banknotes representing 27% of the total of 188 million which the NBS estimates to put in circulation (compared to 92.5% in Malta, 80% in Cyprus and an average of 67% for the countries of the first group of euro area participants). The orders of euro coins raised by 60% between September 2007 and March 2008 to 320 million pieces (64% of planned issued euro coins). The NBS expects additional orders of both banknotes and coins in the coming months. The majority of banknotes and coins (81.5% and 75% respectively) will be frontloaded to the three biggest commercial banks.

The low frontloading orders are partly an indirect consequence of the limited interest that businesses have manifested for the **sub-frontloading**. In March 2008, only 12 000 enterprises (16% out of the total number of 73 000 enterprises working with cash) had expressed an interest for being sub-frontloaded. Slovakia has decided not to produce special euro coin starter kits for businesses though it is part of the Commission Recommendation 2008/78/EC. Hence SMEs can only obtain sufficient amounts of euro cash for the first days through the signature of a special contract with a bank. Additional efforts with a view to increasing the sub-frontloading volume should therefore be made. The use of the recently adopted simplified ECB guideline on sub-frontloading should be encouraged.

The **euro cash transports** for sub-frontloading will be mostly done by experienced private cash-in-transit companies (CITs). The NBS offers free of charge transport facilities for big cash orders. The transport of cash to the NBS will be always accompanied by the State police. Police escorts are not foreseen at this stage for the transport of cash to/from commercial banks.

- Sub-frontloading of citizens

Slovakia originally did not envisage providing euro coins **mini-kits** for the general public. Following an extensive debate with the Commission, the authorities decided to include the production of mini-kits in the April 2008 update of the National Plan. Citizens will therefore have the possibility to buy mini-kits worth 500 SKK (approximately €16.60). The NBS has ordered 1.2 million mini-kits which may however turn to be insufficient. The experience from the previous changeovers shows that approximately one mini-kit per household was usually sold (Slovakia has some 2 million households). Furthermore, as the production of retailer starter-kits is not envisaged, SMEs might be also interested in buying mini-kits. An additional order of mini-kits should therefore be considered.

Contrary to the practices used in Cyprus and Malta, the commercial banks in Slovakia do not envisage providing for exchanges at the official conversion rate without fees before €-day. The **disharding campaign** for citizens should start in July 2008. Some problems may appear within the elderly people (approximately 1 million persons) who often hoard cash and rarely use the electronic means of payments. The electronic means of payment are already being promoted; no special campaign to increase their use during the changeover is therefore envisaged.

- Exchange and withdrawal of cash after €-day

In order to facilitate the cash changeover, the NBS and commercial banks plan **extra opening hours** in the first days of January 2009. The banks will open for cash exchanges on 1 January (which is normally a State holiday) as well as on the weekend days of 3-4 January. Some branches will open special counters for businesses and reinforce their front-office with employees coming from the back-office. The amounts exchanged/withdrawn during the dual circulation period will be free of any charge or volume restriction. The NBS and the commercial banks are aware of the Commission recommendation to distribute only small denomination banknotes via ATMs as well as over-the-counter in the first days before and after €-day.

The banks are regularly training their staff for the introduction of the euro and some of them provide training facilities to their major clients. Many banks have created special euro related web sites.

Virtually all 2172 **ATMs** in Slovakia should dispense only euro banknotes (mainly €10 and €20) by 2 a.m. on 1 January. Special attention will be paid to centrally located ATMs so that they are well supplied with Slovak koruna notes before midnight and with euro cash shortly after. The ATMs which, for technical reasons, will not be adapted on time will be closed. All 26 800 POS terminals should be able to work in euro as of €-day.

According to the 'umbrella law', the **change in shops** should be given in euro only as of €-day. The law also protect retailers from being used as exchange offices: a payment in Slovak koruna can be refused if the total nominal value of the notes and coins is more than four times higher than the price to be paid (in the previous changeovers, customers sometimes tried to pay with high denomination banknotes for small purchases in view of getting rid of their old national cash).

The provisions of the Recommendation 2008/78/EC on the conversion of ATMs, POS terminals, giving change and special bank opening hours are respected.

Slovakia has designated the authorities competent for the **protection of the euro against counterfeiting**. In particular, Slovakia established a National Central Office at the Ministry of Interior as well as a national analysis centre (banknotes) and a coin national analysis centre, both situated within the NBS. Slovakia also participates at the regular training actions under the Pericles programme. The NBS and commercial banks have ordered the necessary equipment to control the authenticity of euro banknotes.

- **The preparations of the financial and banking sectors for the changeover are well advanced. With a view to avoiding logistical problems in the first days after the changeover, a significant additional effort should be made to increase frontloading and sub-frontloading volumes.**
- **Retailers should in particular be invited to use the simplified contract foreseen by the new ECB guideline on subfrontloading.**
- **Appropriate measures should be taken to ensure a high level of security for all the cash transports during the weeks before and after the changeover.**
- **Special attention should be paid to the preparation of small retailers and vulnerable groups (e.g. distribution of appropriate information material to elderly people) for the cash changeover.**

2.4. Preventing abusive practices and erroneous perception of the evolution of prices by the citizens

According to the latest Eurobarometer survey, 72% of Slovak citizens fear price increases and abuses at the occasion of the changeover⁴. Dispelling these fears remains one of the main challenges for the Slovak authorities in the run up to the changeover.

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See Flash Eurobarometer 237, May 2008

The Strategy for the Protection of Consumers adopted by the NCC set the general framework of consumers' protection during the changeover. The Strategy is based on two pillars: informing the citizens and monitoring and controlling prices.

The dual display of prices is an important tool which should help consumers to get accustomed to the new currency and the new scale of values. The Government has set the rules for dual display in the Regulation of 27 March 2008, while the National Bank of Slovakia has adopted the rules applicable for the financial sector. The obligatory dual display will start one month after the irrevocable conversion rate is adopted and last until the end of 2009. Retailers can use the dual display on a voluntary basis for an additional period of 6 months.

- Fair pricing initiative

The Government Plenipotentiary together with the Association of Slovak Entrepreneurs have launched an '**Ethical Code**' project. The Code bounds its adherents to respect the rules of the changeover and not to abuse it for their own profit. It has been signed by some 1000 market players, towns, municipalities and regional administrations. A big public event is planned for the presentation of the logo identifying the subscribers of the Code.

- Price monitoring and control

The **Slovak Trade Inspection (SOI)** will be the main body in charge of the price monitoring. It is entitled to deliver warnings, charge penalties and enforce its decisions⁵. The SOI will control: the correct dual display of prices, the respect of the rounding rules and the correct application of the conversion rate. It will also monitor the price neutrality of the changeover and the prohibition of any inclusion of the costs of the changeover into the prices, as prescribed by the 'umbrella law'. The euro-related controls will take place during the whole dual display of prices period as well as for some months after. The controls will be developed via either a mystery shopping (a special attention will be paid to small shops and shops in remote areas) or via targeted control, following a complaint from a citizen. Complaints will be collected via a special 'euro' phone line, e-mail, fax or personally in the SOI regional offices. A press release on the results of the controls will be published every two weeks.

The SOI has currently 262 staff members, out of which 150 work 'in the field'. The current staff may not be sufficient to cover the whole country.

If a breach of any applicable law is detected, the SOI will inquire with the retailer to find out the reason. Any doubtful price change will be compared with the long term trends, the prices of the same product in other shops and considered within the broader context (e.g. applicable prices of inputs). If a price increase proves to be unjustified, the SOI will first ask the retailer to revert to the former price. The next step will be to issue a warning and, eventually, to open an infringement procedure. The time limit for the final decision in infringement procedures was set at 30 days (plus 30 days for a decision of appeal). The 'umbrella law' provides for fines of up to € 60 000 for a retailer or a legal person. An individual who is directly responsible for an infringement can be fined up to € 3000.

⁵ Only 8 other national authorities in the EU have comparably large competencies

The price controls of the SOI are complemented with a price monitoring scheme by consumer organisations. Inspectors-volunteers should monitor the prices of selected products in some 350 retail outlets. An inspector would visit the selected shop twice per month and monitor the prices of the same set of products. The results of the monitoring together with the names of shops where the prices increased should be published on a special web site.

The conception of the scheme needs to be improved. Monitoring the same set of products at regular intervals in the same shops will not give an accurate image of the general situation (as observed in Cyprus this year)⁶ because the behaviour of the shops concerned will presumably be distorted by the very existence of the monitoring. The lack of random control risks hiding price increases in other shops. Limiting the name and shame to a very small number of shops is also both unfair and of little help.

As far as the official statistical monitoring of prices is concerned, the Statistical Office of Slovakia will monitor the prices of frequently purchased goods during the whole period of dual display. As of June 2008, it will publish a report every 10 days. The Statistical Office will also monitor public perceptions of inflation and the impact of the information campaign.

- **The 'Ethical Code' should be promoted very widely and actively as the existing number of subscribers is very low.**
- **Quick reactions and an active communication with media are absolutely crucial for fighting efficiently citizens' fears of price increases. The bodies in charge of price monitoring and control should be able to react as soon as they receive a complaint. If the deadline for delivering a final decision in infringement procedures cannot be shortened, the preliminary steps taken by control bodies should be published quickly. The price monitoring activities of the SOI are well prepared: it is important to ensure it will have sufficient resources to implement it throughout the whole country.**
- **The monitoring scheme foreseen by the consumer associations needs some significant adaptations.**
- **Any administrative freezing of prices or equivalent market distortive measures – notably for food products - should be avoided : such practices only delay the normal price increases due to the evolution of the world markets and distort the inflation perception, as they would inevitably occur in one shot at the end of the freezing period instead of being naturally smoothened over a certain number of months.**
- **The envisaged use of penal sanctions for euro related price abuses needs also to be clarified, as it does not appear very logical to limit it to regulated prices, for which the administration has already, by definition, a very strong leverage.**

2.5. Preparations of enterprises for the changeover

The preparations of enterprises for the changeover are overseen and supported by the Ministry of Economy and its National Agency for the Development of Small and Medium Sized Enterprises (NADSME). The main activities of NADSME consist of building an advisory

⁶ According to available information, retailers knew in advance what were the prices followed in one of the price monitoring schemes, and have adapted their pricing strategy accordingly.

capacity at regional level (in cooperation with the Regional Business Information Centres network (RPICs)), organising information seminars for SMEs and preparing information materials (e.g. brochures, manuals etc.).

According to the Commission survey on the preparations of SMEs for the changeover conducted in June 2008, 80% of companies have already launched their preparations. About two-thirds of companies have defined the necessary computer adaptation (67%); a similar number have informed their staff (65%) and almost half have identified the impact in the different areas of the enterprise (49%). Some 70% of companies will outsource the necessary computer adaptations to a specialized company; most companies do not expect any problems related to the necessary changes to IT systems (82%). Almost 90% of companies feel very well or rather well informed about the changeover.

The majority of companies claim that they will convert their prices from Slovak koruna into euro using the exact conversion rules (45%). 22% plan to use an overall neutral approach (adjusting some prices upwards and some downwards). A significant proportion of companies intend to adjust their prices mostly upwards (14%), though such an approach would contradict the law. This proportion is significantly higher than the one observed in Cyprus (3%) and Slovenia (6%).

This survey was intentionally conducted at an early stage for raising the awareness of the businesses on the need to launch or speed up the preparations. The businesses have the possibility to take part in numerous thematic seminars organised by NADSME and/or to seek help from an RPIC.

- **The authorities should ensure that all SMEs are sufficiently informed about the changeover and get appropriate support.**
- **The progress of preparations of SMEs should be regularly monitored with a view to identifying and addressing quickly potential problems.**

2.6. Communication activities and public opinion

The updated and enriched national Communication Strategy on Euro Adoption in Slovakia was adopted on 17 October 2007. It was prepared by the Working Committee on Communication.

Following a complex tendering procedure, an external communication agency was selected in November 2007 to implement the major part of the national Strategy, whilst complementary communication activities are performed by the National Bank of Slovakia, the Ministry of Finance, the Government and other public administration bodies. In close co-operation with its partners, including the European Commission, the Slovak authorities developed a comprehensive communication campaign that will use a multitude of channels, reaching out to a wide range of target groups. The main themes of the strategy relate to the consecutive steps of the changeover, the benefits of the euro and the consumer protection against price abuses.

The Slovak authorities decided to postpone the launch of a fully fledged information campaign until more certainty about Slovakia's compliance with the convergence criteria was achieved. Nevertheless some preparatory actions were implemented. A campaign logo was chosen as well as a house style of the national campaign. Extra communication staff was

recruited both in the National Bank of Slovakia and the Ministry of Finance while special attention was devoted to appointing experts to deal with specific target groups: children and youth, the elderly, the impaired and the ethnic minorities. In the past months, the Slovak authorities have hosted regular press briefings which seems to bear fruit since the press is better informed and less critical towards the changeover. To prepare the Slovak population for the mass campaign in the second half of 2008 a first euro-related TV spot was launched in March.

The Commission signed a Partnership Agreement with the Slovak authorities on 7 December 2007. Under this 'umbrella agreement', the Commission has been supporting the communication activities by providing promotional material, lending its Euro Exhibition (displayed in Bratislava and Košice in January-February 2008) and organising a seminar for Slovak journalists in Brussels (March 2008). Both parties have also signed a grant agreement on 20 December 2007. Under this grant, the Commission will co-finance a number of activities until the end of July 2008 including the employment of communication officers, various campaigns in media (e.g. for the Roma minority), a national euro help line, a national euro website, a "euro to schools" project and a training programme for the multipliers.

The recent Flash Eurobarometer survey in the new Member States⁷ essentially confirms the results of past years. The level of support for the euro in Slovakia remains above the average of the recently acceded Member States but the trend has been slightly negative since spring 2007 (support rate stands at 52% compared to 55% in September 2007 and 57% in April 2007).

The launch of the communication activities in Slovakia has had a multiple impact. The level of self-perceived information jumped up by 17 percentage points to the highest level of all countries covered (64% of Slovaks feel very or rather well informed compared to an average of 40%). The results also show a growing demand for information. The familiarity with some key features of the euro and EMU has again improved.

- **Whilst being relatively positive on the euro introduction in general terms compared to other countries, the latest Slovak results also reflect a slightly growing scepticism in terms of expected consequences and benefits.**
- **The forthcoming intense phase of the information campaign will thus have to pay great attention to the citizen's concerns, in particular to those related to the evolution of prices in the run up to the changeover.**

⁷ See Flash Eurobarometer 237, May 2008