



THE GOVERNMENT OF THE REPUBLIC OF SLOVENIA
INSTITUTE OF MACROECONOMIC ANALYSIS AND DEVELOPMENT

EURO CHANGEOVER IN SLOVENIA

EURO INTRODUCTION AND PRICE EFFECTS FROM A MACRO-ECONOMIC PERSPECTIVE

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Outline of the presentation

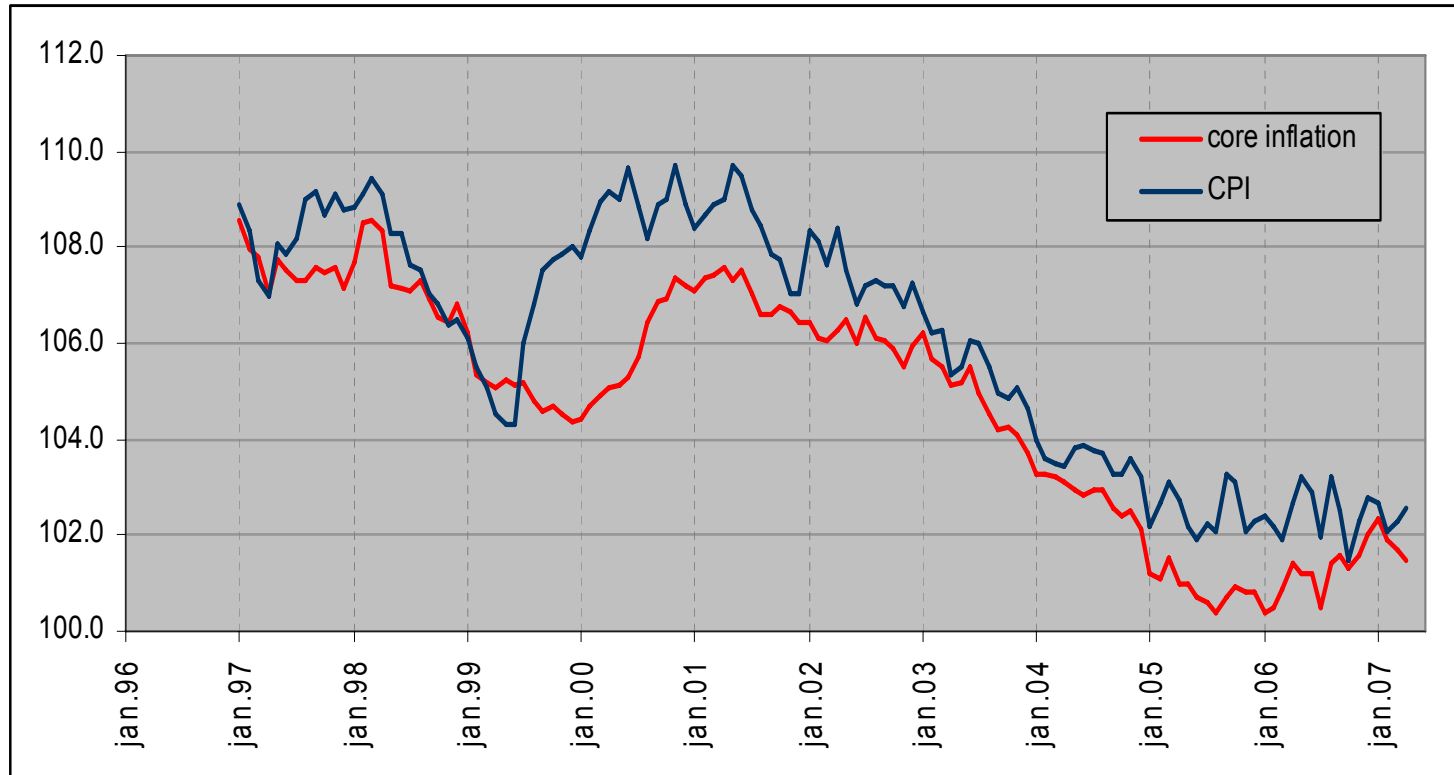
- 1. Main macro economic challenges prior to the euro adoption**
- 2. Price developments during the euro adoption:**
 - euro changeover effect on prices
 - perceptions regarding price dynamics
- 3. Expectations**

Fulfillment of the Maastricht criteria

	2003	2004	2005	2006
inflation			x	x
interest rate	x	x	x	x
government deficit	x	x	x	x
government debt	x	x	x	x
exchange rate stability		x	x	x

Source: IMAD.

Persistent inflation prior to the ERM II entry



Source: Statistical Office of the RS, IMAD.

Experiences of the first euro area countries

Price increase was measurable in most countries:

- most of the increase occurred in the month before and in the month of the changeover
- it averaged 0.3 pp in the whole euro area
- reached 0.6 pp in some countries

Price perceptions played a crucial role:

- perception of inflation increased during the changeover process
- considerable anecdotal evidence with a negative connotation

Additional efforts to inform the public and prevent abuse paid off:

- »dual pricing« seemed to be beneficial to the process
- the broad information campaign seemed to be beneficial

Measures employed in Slovenia

Government and Central Bank campaign:

- dual pricing
- committee for technical questions regarding the changeover
- leaflets for households
- euro calculator for each household
- articles and comments for the meetings with interested public

Media campaign:

- paid advertisement
- media's own activities

Price watch:

- performed by the Slovenian consumer organisation

Business agreement:

- agreement on prices in supermarkets

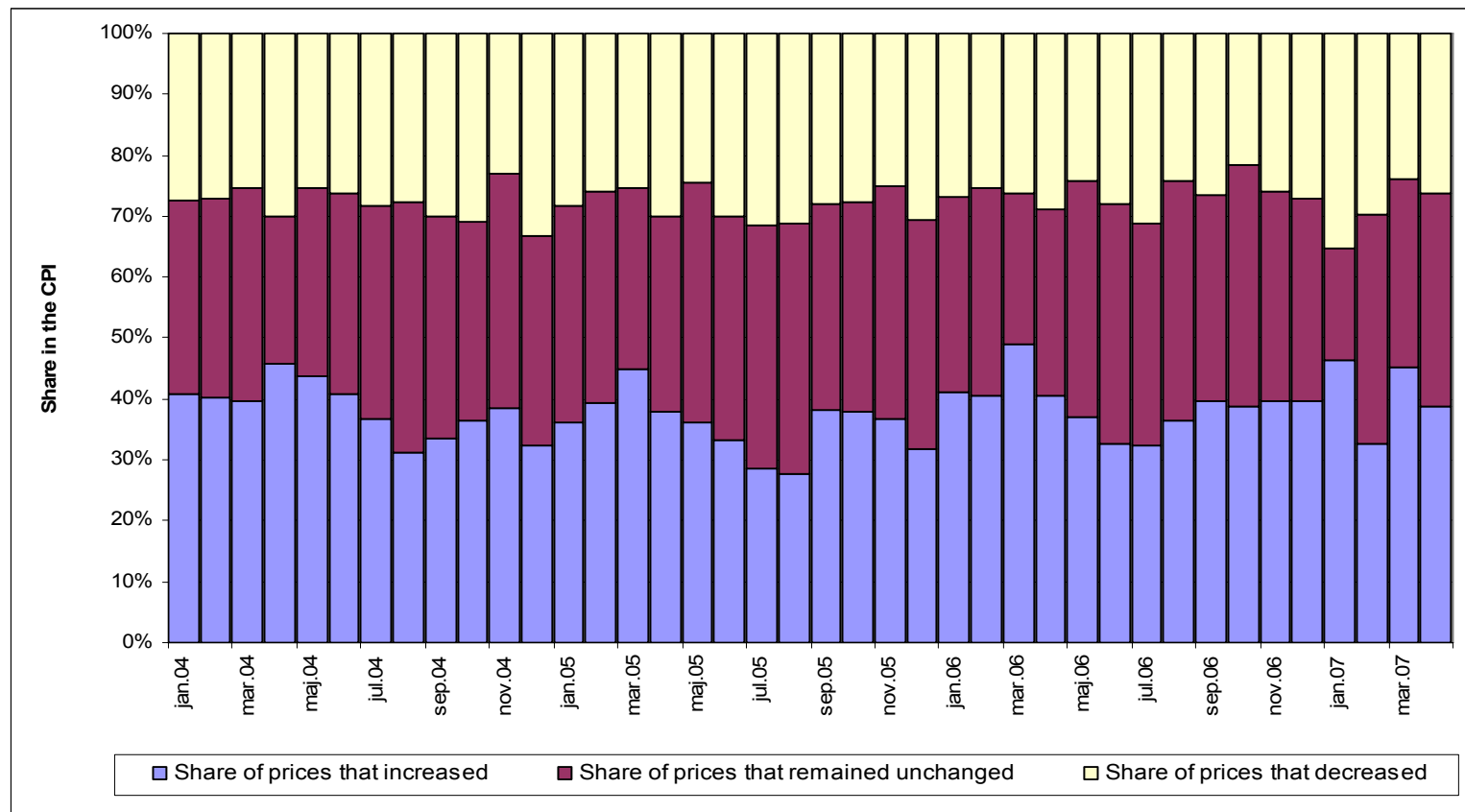
Dual pricing

- adopted 9 months prior to the euro adoption
- compulsory for all entities, with few exemptions
- costs of the operation: 0.5% of the total revenues of enterprises (approx. 25 million euro) - negligible relative to the benefits
- mandatory till the end of June 2007

Information campaign

- leaflets to households
- TV infomercials & press releases
- euro phone
- euro calculator for each household
- consumer organisation's actions: lists of price changes in the changeover process

Number of price changes in the CPI



Source: Statistical Office of the RS, IMAD.

Analysis of euro changeover on prices

- based on individual items from the CPI (approx. 700 indexes for individual goods and services)
- time period January 2000 - March 2007
- measures of the volatility of time series were computed

Analysis of euro changeover on prices (con't)

- comparison of the volatility of the time series: Jan.00 – Nov.06 with price changes in Dec.06, Jan.,Feb.,Mar.,Apr. 07
- regarding their behaviour, all items categorised into the three groups:
 - no significant change in the volatility
 - significant (more than 3 stdev) increase in the volatility
- volatility in excess of the 3 standard deviations was attributed to the currency changeover
- experts' judgment on the reasons for the increase in volatility:
 - one-off reasons (pre-announced increases of prices, external shocks)
 - all other reasons were considered related to euro adoption

Analysis of euro changeover on prices: results

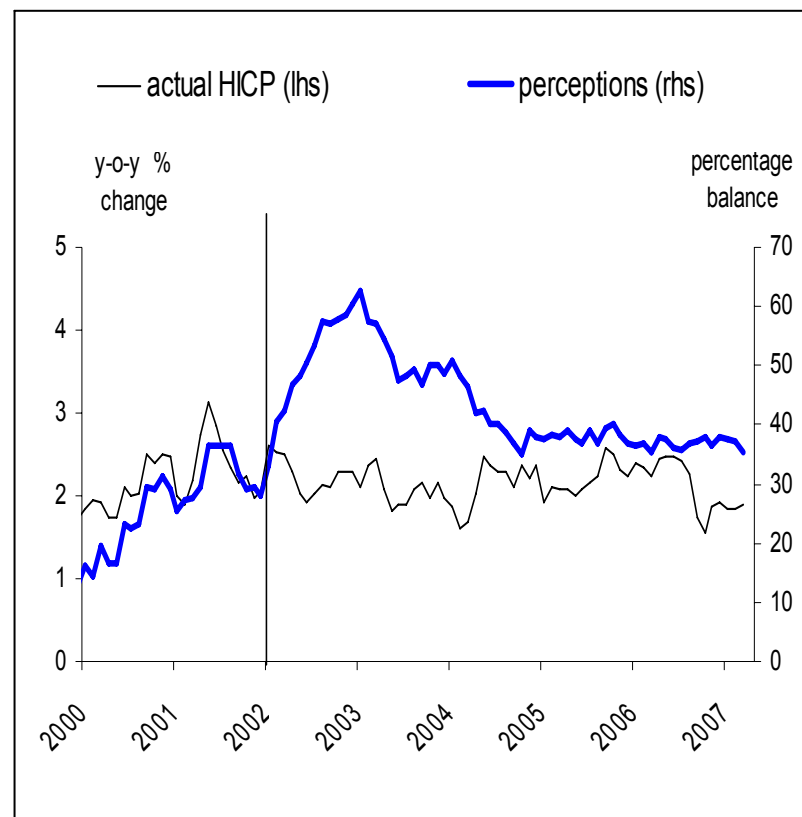
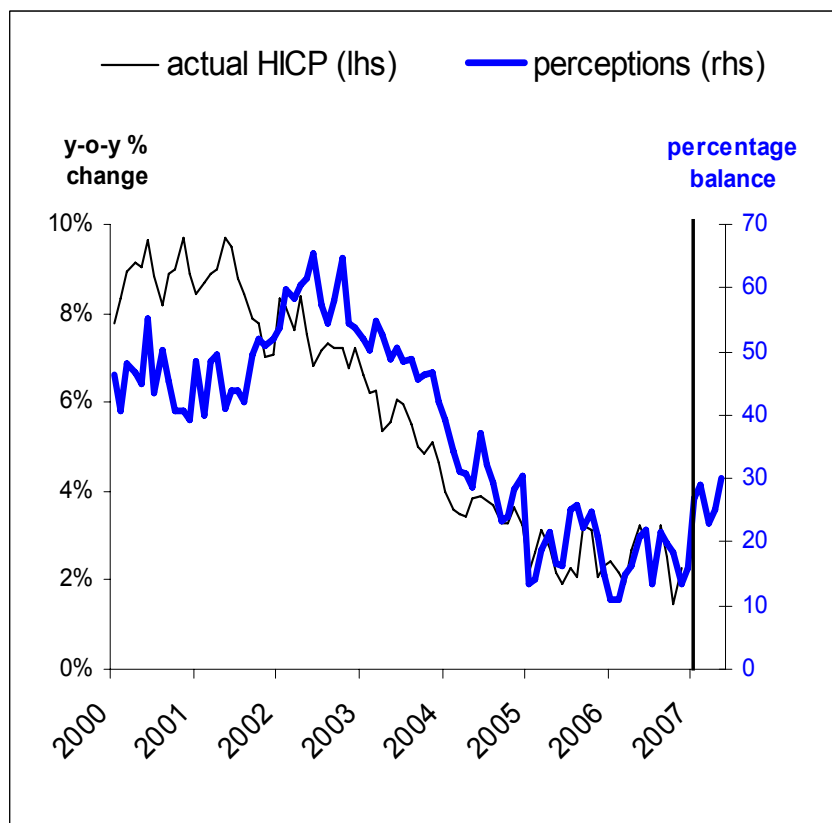
- no increase in the general level of prices was observed
- a measurable increase was observed in some individual groups of prices in the CPI
- namely, the prices of the following groups went up:
 - services in restaurants and cafes
 - other services
- the total impact of the currency changeover to inflation amounted to 0.24 pp
- attributed primarily to the rounding of prices of services

Euro changeover contribution to inflation

	dec.06	jan.07	total
Restaurants and cafes	0.098	0.065	0.163
Personal services	0.011	0.015	0.026
Health services	0.016	0.000	0.016
Other transport services	0.000	0.014	0.014
Maintenance and repairs	0.001	0.007	0.008
Financial services	0.000	0.003	0.003
Services for footwear and clothing	0.001	0.001	0.002
Repair of household appliances	0.002	0.000	0.002
Cultural services	0.000	0.002	0.002
Other services	0.000	0.002	0.002
Total	0.13	0.11	0.24

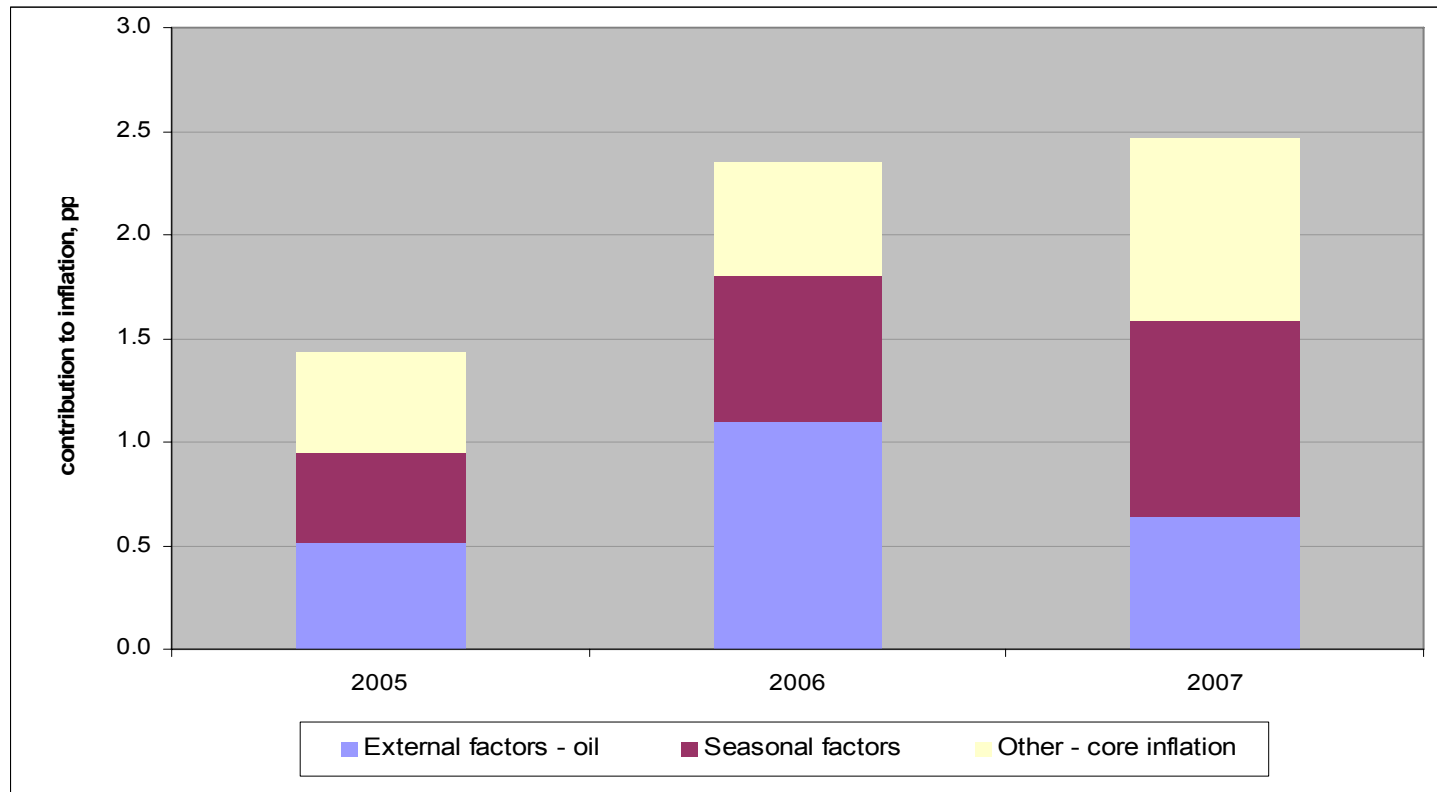
Source: IMAD.

Actual and perceived inflation



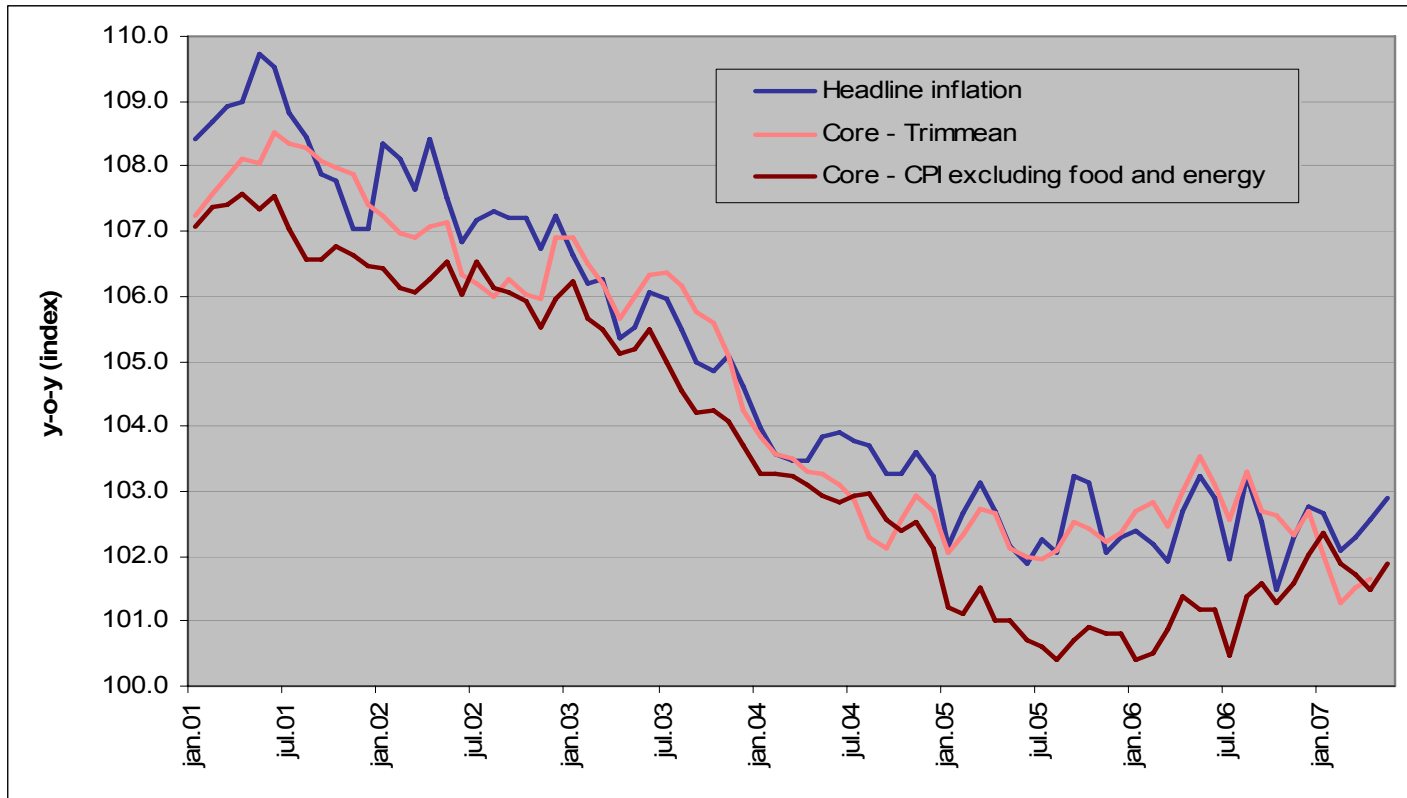
Source: SORS, Eurostat.

Price dynamics in 2007



Source: Statistical Office of the RS, IMAD.

Price dynamics in 2007 (con't)



Source: Statistical Office of the RS, IMAD.

Conclusions

no macroeconomic instability during the euro adoption in general:

- in particular, no shift in the general price level
- but a certain increase of certain prices of services
- which resulted in 0.24 pp higher inflation

successful adoption was the result of lengthy and exhaustive preparation:

- taking into account the experience and good practices of the first euro group countries
- with supportive conditions: declining prices of oil and some favourable seasonal factors