



Review of the Slovenian changeover to
the euro

Final Report – August 27, 2007

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EXECUTIVE SUMMARY

The introduction of the euro in Slovenia on January 1st 2007 is of particular interest to the European Commission because it was the first occasion on which euro notes and coins have been introduced by a single country in isolation from any others, and Slovenia was the first country in which the euro was introduced as book money and as cash on the same date, without any transitional period. As other countries will find themselves in an analogous position and have either decided to adopt or are considering adopting the 'Big Bang' approach, the lessons learned by Slovenia have broad relevance.

Slovenia's preparations for the introduction of the euro and the results in the weeks that followed were captured in quantitative surveys by both the European Commission and the government of the Republic of Slovenia and the Bank of Slovenia. This study supplements that information with qualitative research via 50 interviews with public and private sector players, including civil society.

These interviews focused on the organisational structures for executing changeover, the introduction of euro notes and coins, consumer protection and the changeover in the private and public sectors. Each section of the review provides background information, a summary of the results of the interviews, our findings and the resulting recommendations we make to other countries preparing to adopt the euro.

We have paid particular attention to aspects of the Slovene economy, history and geography which facilitated introduction of the euro. We also state whether the approach or lessons learned are applicable to 'pre-ins' or whether caution is necessary when scaling up in larger Member States.

The fact that we have made some recommendations on how other countries might handle some aspects of the changeover differently - in the light of Slovenia's experience - should not be taken to suggest that we uncovered any systemic problems in Slovenia. Nor should it detract from the credit which should accrue to the Bank of Slovenia and the government of the Republic of Slovenia for their careful preparation and the smooth changeover.

Cross-cutting themes

A theme running through the whole of the qualitative assessment in this review is a single leitmotiv: **the importance of preparation**, and the fact that this was the key success factor in Slovenia's introduction of the euro. Contributing factors were the authority the changeover board team had in conveying their messages because of the clear commitment to the project at the highest levels of government, and the stability of staffing in the changeover team and in project teams across the economy.

For larger countries, this meticulous preparation will be proportionally more complex and will place even heavier project management demands on those involved, particularly in the public sector. One of the key challenges in introducing the euro is getting across the message on the breadth and depth of the impacts of a euro project, and the importance of not losing sight of the benefits of adoption of the euro by becoming too immersed in the detail, crucial as that detail is.

Two other key threads are: Slovenes' existing **familiarity with the euro** in both cash and book money forms – probably on a scale unmatched in any other 'pre-in', and **the need for legal certainty**.

The benefits of the **familiarity with the euro** were manifest in a number of areas such as training and communication, and ATMs. The national communication campaign was comprehensive in Slovenia, with a particular focus on developing a new scale of values, the understanding of the value of coins and recognition/security features of the notes and coins and the importance of being attentive to rounding and fair pricing. Nevertheless, as Slovenes were generally familiar with the euro, the national campaign could target groups most likely not to be familiar with the euro and focus on the last four months of 2006 and the first two weeks of 2007 - to an extent that might well not be appropriate in other countries. Similarly economic entities could largely restrict their training to note recognition and, above all, counterfeit

prevention. Rapid conversion of ATMs proved to be of psychological benefit but was not a factor in early introduction of low-value notes into the economy - because Slovenes already had significant amounts of euro in their pockets. However, it should also be borne in mind in this context that there was no significant retail activity in the first two days of the year.

Legal certainty in relation to adoption of the euro does not necessarily depend on the timing of the actual decision by the Council of Ministers on the lifting of a country's derogation. It is for the national authorities to define and communicate to the public the details of the planned changeover as early as possible. A delicate balancing act between providing the certainty required for preparation and not pre-judging the decision on actual entry is absolutely important. This requires an understanding of the extent to which parts of the public sector and the private sector will wait for and need full legal certainty before making final preparations and investment in the changeover, and the complications of launching a full communication campaign before the formal decision on adoption of the euro has been taken.

In the areas of accounting and tax affecting information systems, we conclude that there were delays in Slovenia which might have been avoidable if it had been understood that there was a store of knowledge from the 'first wave' which was still applicable even in the absence of a transitional period. From the middle of the last decade until 2002, the European Commission played a valuable role, for example, through its Euro Paper series in identifying issues in these areas which were common to all governments and/or companies introducing the euro. Solutions ultimately have, of course, to be adapted to national situations, but there was found to be enough commonality in the first wave to justify a role for the European Commission in researching this. Interviewees who had identified these Euro Papers as a source of information had found them useful even though they had not been updated. However, others appeared to have had to 'reinvent the wheel' in these areas because they were unaware of the existence of basic documentation on this. Interviewees were also unaware of the existence of an archive at <http://ec.europa.eu/avs/services/avs/files/euro/index.htm>.

The 'Big Bang' scenario

The above issues are nevertheless **not an argument for a 'Madrid scenario' with a transitional period**. The Slovenian experience justifies the choice of a 'Big Bang' and proves that it is possible to introduce the euro as book money and cash simultaneously. It was also more cost-effective. In most areas, we do not believe that scaling up to the needs of a larger country would affect this judgement. However, we acknowledge that compressing the changeover into a short period can increase systemic risk in some types of IT changeover, and this needs to be carefully considered by other 'pre-ins'.

Generally, the key lies in the preparation, combined with a total focus on the introduction of the euro, both within government and within companies, requiring the best possible project management skills, and very likely accepting that other internal or external and IT-hungry projects will have to wait. It was fortuitous for Slovenia that introduction of the euro did not fall together with, for example, implementation of SEPA, the Single Euro Payments Area.

Slovenia's experience also justified the choice of a **shorter dual circulation period** than in the first-wave countries, i.e. two weeks as opposed to four-to-eight weeks as it was in the first wave. With hindsight, a one-week dual circulation could also have produced a smooth changeover without putting an excessive burden on banks or retailers. Making the giving of change in euro compulsory may not necessarily have been essential either.

Foreshortening the dual circulation period in a larger country would need careful consideration and a good understanding of the role played in Slovenia by the fact that Slovenians could buy euro at the conversion rate in December 2006 and already had considerable amounts of euro in their pockets and cash registers on January 1st 2007 from sources other than sub-frontloaded and frontloaded cash. Retail kits were not important in this particular context, but the difficulty of planning for retailers' requirements

raises more general questions marks about retail kits. Kits for the general public, on the other hand, did serve a useful purpose. They had psychological value and were probably useful in introducing coins into circulation despite the particular Slovene context.

The euro and prices

The issue of **inflation perceptions** as opposed to reality was an issue for Slovenia as it was in the first-wave countries. Slovenia did not fully succeed where others also partly failed, i.e. in avoiding perceived inflation starting to diverge from actual inflation in the context of the changeover. The perception that some retailers see the introduction of the euro as an opportunity to put up prices remained. While this was certainly the case in some instances, the statistical evidence is that this was more the case in the service sector, but that consumers do not make that distinction. However, we acknowledge that the issue is not easy to solve, and it affects the euro-area as a whole (still). Changing perceptions on this is akin to “turning a large battleship”.

It is more than likely that other countries will therefore have to combat a further perpetuation of the idea that the introduction of the euro is inflationary, even though the actual level of euro-induced inflation in Slovenia was 0.3 percentage points or less and prices actually went down overall in both January and February 2007.

The fact that increases tend to be in the cost of eating and drinking out, and in everyday personal services, which are often not contestable, inevitably creates a perception of higher prices, and the message about the overall limited level of price increases is not likely to counteract this perception..

It is essential to have a strategy that tempers ‘good news’ with bad, bearing in mind that conveying the former is likely to need more effort than the latter, and that the perception that the euro leads to price increases is now well embedded.

In the light of the Slovenian experience, it is possible to say that caution should be exercised in placing too heavy a reliance on dual price display as an anti-inflation measure in itself, and that more emphasis should be placed on fair-pricing agreements.

Slovenia's use of dual price display questioned received wisdom. Slovenia made dual price display compulsory at the central parity rate in ERM II more than four months before the conversion rate was fixed, judging that this would in itself induce price restraint. The Slovenian authorities considered, moreover, considered that the risk of voluntary initiatives at a plethora of rates and confusion for consumers was greater than the risk of the future fixed conversion rate being different or even of adoption of the euro not going ahead on the projected date. They took a two-stage approach. For any business wanting to introduce dual price display on a voluntary basis, the Slovenian law on dual price display made it mandatory to use the ERM II central parity rate from November 15th 2005. Dual price display became compulsory on March 1st 2006—also at the ERM central parity rate for as long as there was no official conversion rate. Once the conversion rate was fixed, the use of that rate became compulsory. The two rates were in practice the same. The role of dual price display in preventing price increases cannot be quantified, but it does not appear to have acted as a particular restraint. In addition, consumers tend not to pay attention to dual price display until the last minute, so the need to implement it before the conversion rate is set can be questioned. This is a matter for government to decide in the light of national circumstances.

The other major anti-inflation measures were fair-pricing agreements by the public sector and the retail sector. These are more useful when they are publicised well before the changeover (whereas in Slovenia they were not published until early December 2006), and have wide coverage, including government,

banks, retailers and their supply chain (whereas in Slovenia they did not include the banking sector). Particular efforts are needed to ensure that the hotel and restaurant, and personal services sectors, understand the broader implications of communicating the reasons for price increases.

A positive by-product of the approach to the pricing issue in Slovenia was the way in which the support for the Consumers' Association's PriceWatch scheme and associated activities was used to develop awareness of consumer rights in a country where this was still relatively underdeveloped.

Recommendations

Our key recommendations to other countries considering introduction of the euro are:

- When looking at the Slovenian model, understand the specific features which facilitated the changeover in Slovenia;
- Convey early the messages on the extent to which a euro project involves all aspects of an organisation's activity and every type of entity, particularly all government departments;
- Give the changeover team clear backing from the highest levels of government, appoint the best project managers to the changeover, and ensure as much stability in project team staffing as possible;
- Provide as much legal certainty on the details associated with introduction of the euro as early as possible, and to the extent possible at least one year in advance;
- Pay particular attention to communication on price issues, in particular on communicating the reasons for price increases of specific items, and on good practice, such as fair-pricing agreements.

1. INTRODUCTION

This project is intended to provide the European Commission with an essentially qualitative review of the experience of and the lessons learned from the changeover to the euro in Slovenia.

The emphasis was placed, at the request of the Commission, on:

- preparation and implementation of the cash changeover;
- changeover of the private sector;
- changeover of the public administration;
- communication on the euro and information of the public about the changeover process.

Slovenia entered the euro area on January 1st, 2007, the first of the countries which joined the EU on May 1st, 2004, to do so. The lessons learned are of particular interest to the European Commission – and to other countries preparing to join the euro – in particular because of key differences between the introduction of the euro in Slovenia and the first-wave countries:

- Slovenia adopted a 'big-bang' approach, i.e. the euro was introduced as book money and as cash on the same date, without any transitional period;
- euro notes and coins were already in circulation in other countries;
- the dual circulation period was only two weeks;
- Slovenia could not rely on synergies that the first-wave countries had from simultaneous introduction of the euro in a number of countries at the same time.

The changeover was clearly well prepared and went smoothly. There is a substantial amount of information available on this, including from surveys made before and after the introduction of the euro by both the Commission and the Slovenian authorities.

However, qualitative information can look beyond these, particularly where there were nevertheless some surprises in terms of what surveys or past experience might have led the Commission to expect. This can also help the Commission and the 'pre-in' countries understand whether particular features of the Slovenian economy, geography and history made introduction of the euro particularly easy to implement.

It was perhaps inevitable in a qualitative review of this nature that it would uncover some “teething problems” that have not otherwise received publicity. That was indeed the case. We wish to stress that we regard them as just that. There are no systemic concerns, and the issues we have identified should not be allowed to cloud the positive picture of a well prepared, well run and smooth introduction of the euro in Slovenia. At the same time, we hope that this qualitative information will serve to highlight the risk of confusing 'smooth' with 'easy'.

2. CONTEXT, SPECIAL FACTORS AND REPLICABILITY

2.1. Context

The context within which the euro changeover in Slovenia was carried out was one in which there was a linear progression from independence in 1991 to adoption of the euro on January 1st, 2007, via application for EU membership in 1996, embracing adoption of the euro as a policy objective in 2001¹, a joint government/Bank of Slovenia programme for ERM entry and euro adoption published in 2003, accession to the EU on May 1st 2004 and membership of the Exchange Rate Mechanism II from June 28th 2004. The impact this had on the organisational structures is discussed in Chapter 4.

This implied a very tight timeline for moving from ERMII membership to introduction of the euro. The milestones in that timeline are set out below.

Table 1: Timeline - from EU accession to the euro

Accession to EU		May 1st 2004
Membership of ERM II		June 2004
Masterplan for the Euro Changeover		January 2005
	First update	January 2006
	Second update	October 2006
Communication strategy on the introduction of the euro		June 2005
Dual price display Law	Promulgated; ERM II rate applies to voluntary dual price display	November 2005
	Compulsory dual price display in effect	March 2006
European Council 'green' light to € membership		June 2006
Council of European Union decision on € membership		July 2006
Euro Law	Approved by government	July 2006
	Promulgated	October 2006
Introduction of €		January 1st 2007

¹ It was also signalled as a future policy objective in the Annual Report of the Bank of Slovenia in 1997.

Giving change in € compulsory		January 1st 2007
End of dual circulation period		January 14th 2007
End of period of free exchange at all banks		March 1st 2007
End of compulsory dual price display		June 30th 2007
End of period of free exchange at selected banks ²		December 31st 2007

2.2. Special factors

There are special factors in the introduction of the euro in Slovenia of which we were asked to take account and which we discussed with all interviewees and in relation to all topics, but which it makes sense to cluster here because there was an across-the-board consensus that these had contributed to a greater or lesser extent to all aspects of the introduction of the euro, whether it be in book money or cash form.

The issues are:

- adjacency to the euro area – two of Slovenia's borders are with euro-area countries (Austria and Italy).
- size of the country - Slovenia has an area of 20,273 sq.km., and a population of 2m. Scaling up poses issues in terms of co-ordination, and can pose problems in terms of infrastructure/human resource requirements relative to population density. Slovenia has a population of 99 per sq.km.³ The distribution between urban and rural populations can also play a role.
- degree of attachment of the public to the national currency – the tolar has a short history, though the link with independence for the first time in their history also made Slovenes proud of having had their own currency for the first time. A Politbarometer survey in May 2005 showed that while 59% of respondents had confidence in the euro, the tolar enjoyed the confidence of 58%. On a scale of confidence from 1 (minimum) to 5 (maximum), the euro scored 3.84 and the tolar 3.57.
- positive attitude of the public towards the euro - In the September 2006 Eurobarometer for the European Commission, the 24% who were unhappy at the idea of losing the tolar was the lowest figure for any of the new Member States surveyed. In that survey, 72% of Slovenes welcomed the introduction of the euro.
- familiarity of the public with euro cash - All the surveys leading up to the introduction of the euro in Slovenia indicated a high level of existing familiarity with euro cash. A Ninamedia survey published in September 2006 showed that 84.8% of respondents were familiar with euro banknotes and coins (83% in a Eurobarometer survey taken around the same time).

² See Chapter 5.

³ The extremes among the 'pre-ins' are 22 in Estonia and 1272 in Malta.

- wide availability of euro cash - The September 2006 Eurobarometer survey showed that 95% of Slovenes had already used euro banknotes and 93% had already used coins. A Ninamedia survey at around the same period gave a figure of 88% for notes and coins combined. A large part of the reason for this was that personal holdings were very high (see below).
- a high level of public information about the euro: in the February 2007 Eurobarometer, 92% said they felt well informed about the euro (including 36% who felt very well informed). The figure was 83.4% in the September 2006 Ninamedia survey.

We gathered additional data in the course of this review which illustrates the extent to which the euro was already a familiar concept in book money and cash form:

- Slovenians are frequent visitors for shopping and tourism to Austria and Italy;
- many Italians and Austrians shop and/or have relatives in Slovenia or make the short trip to Slovenia for a competitively priced meal – we encountered one small business in a border area which was already doing 80% of its business in euro;
- many businesses, e.g. petrol stations and many SMEs, transacted with foreign customers in euro. It was not legal for Slovenes to transact in euro, but permissible to hold them. The distinction between domestic and foreign holders of euro was, moreover, not rigidly enforced, and it was not unknown for Slovenians who had run out of tolar to use their euro instead;
- many companies (legally) kept two sets of ledgers, of which one was in euro (and previously in Deutschmarks, when this habit was established to ensure comparability in periods of high inflation or currency volatility).
- many Slovenes worked in companies invoicing in euro even if they were not keeping ledgers in euro;
- euro were kept ‘under the mattress’ as a flow-on effect from the fact that savings were largely held or remitted in Deutschmarks when Slovenia was part of Yugoslavia⁴;
- more important, however, than money under the mattress was the existing familiarity with the euro which came from savings converted into euro and placed in euro bank accounts in 2002 when €1 billion in Deutschmark cash was deposited in newly opened euro accounts;
- Many Slovenes had accounts in euro with commercial banks prior to the introduction of the euro.
- the euro was used to denominate an estimated 80-90% of life insurance contracts (another flow-on consequence of the earlier use of the Deutschmark as a parallel currency);
- Slovenes with mutual fund or equity investments were likely already to be holding part of their portfolio in euro;
- many loans in Slovenia were also denominated in euro.

⁴ There is some evidence that the insurance industry experienced a 'mini-boom' in late 2006/early 2007 with hoarded tolar and euro converted into life insurance and other insurance products.

- the euro (often as a successor to the Deutschmark) was used in pricing many 'big-ticket' items, e.g. transactions, including purchase of real estate;
- hotel rooms were already generally priced in euro.

In this context, the euro was almost not a 'new' currency, and the amount of euro already in people's pockets was considerable relative to tolar in circulation, as discussed in Chapter 5.

Moreover, the concept of a currency change is familiar: there was a revaluation of the Yugoslav dinar by a factor of 10,000 in 1990. The tolar was officially introduced in 1991, but the notes were not ready until 1992 (and the coins not until 1993), so that payment notes circulated in the interim.

2.3. Replicability

We were also asked to consider the extent to which practices and lessons learned in Slovenia could apply in other countries. This was discussed with interviewees and some findings are set out in each chapter. There is, however, no rule-of-thumb.

Even leaving aside the fact that familiarity with the euro was so widespread and thus differentiates Slovenia from most other 'pre-ins', there are areas in which the small size of Slovenia played a role, and others where it did not. Neither in this case is there any 'rule of thumb'.

The fact that Slovenia is a small country played a role in the extent to which familiarity with the euro was even across the country. Interviewees on the whole did not detect significant differences in behaviour that could be explained by geography between urban and rural areas, and between areas bordering on Austria and Italy, and areas bordering on Croatia and Hungary. In terms of logistics, infrastructure and human resource requirements, most interviewees in most areas felt that replicability was just a question of scaling up. In the area of information systems, however, compressing a far larger number of operations, e.g. of account conversions, is likely to increase the risk.

The size of Slovenia was a factor in the smooth changeover in one key respect, i.e. the speed in which consensus could be built on issues relating to the introduction of the euro. As pointed out in Chapter 7, it is possible in Slovenia to constitute a working group from the whole of the insurance industry, and to have all the regulatory staff involved in the project at a single workshop. Larger countries will need additional layers of co-ordination, information dissemination and consultation, which make an early start to preparations and excellent project management even more essential.

3. METHODOLOGY

As indicated in the Introduction, this review was not an evaluation in the strictly conventional sense of the word, where a Commission programme or policy is evaluated on the basis of criteria such as relevance, effectiveness and efficiency. Nor was the Commission seeking to evaluate the activities of the Slovenian government.

The purpose was to see what the Commission could learn to pass on to other countries subsequently introducing the euro. Our emphasis is on success factors and lessons learned. We have included recommendations, but these must be assessed in the context of each country's specific situation.

To complement our review of documentary sources, additional data collection was qualitatively based on face-to-face interviews with stakeholders. This was consistent with the desire of the Commission to get beyond the information available from surveys. We provide a number of special insights into technical issues, to complement the narrative which represents the findings of the documentary and interview research.

The structure of this review is based on the evaluation themes in the Terms of Reference, but also took into account a list of issues identified separately by the Commission (Annex 1). Both were taken into account in the interview guide. A standard guide was used by all interviewers in order to reinforce the homogeneity (Annex 2).

3.1. Phases of the Review and timetable

The Review was divided into four stages. These followed a standard evaluation logic of: structuring/observing/analysing/judging.

Table 2: Phases of the Review

Phases of Study	Terms of Reference		Deloitte methodology	Reports
Phase 1	Inception	Structuring the review; Identifying and accessing existing data	Understanding the context of the Review; Identifying issues	Inception report
Phase 2	Data collection and initial analyses	Collecting quantitative and qualitative data through extensive consultation	Data collection on the basis of a list of agreed issues; initial analysis.	Activity report
Phase 3	Close of data collection, final analyses and judgement	Analysing the data collected; Identifying the areas in which the Slovenian changeover has been successful or problematic, and investigate the underlying reasons.	Data collection; data treatment and analysis	Draft final report

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Phases of Study	Terms of Reference		Deloitte methodology	Reports
Phase 4	Finalisation and feedback	Providing recommendations; Reporting	Conclusions and recommendations	Final Report and two presentations in Brussels

Table 2: Timetable of Review phases

Phase	Activity	Status/timing
Phase 1 – Inception	Draft the data collection plan	14.03.2007
	Draft a detailed plan for the interviews	14.03.2007
	Interview guide	14.03.2007
	Validation by the Commission of the data collection plan	20.03.2007
Phase 2 – Data collection	Fieldwork – Stage 1	26.03.2007 to 6.04.2007
	Fieldwork – Stage 2	10.0.2007 – 30.4.2007
	Submission of the Activity Report	16.04.2007
	Steering Group to discuss the Activity Report	23.04.2007
Phase 3 – Draft	Submission of the Draft Final Report	21.05.2007
	Steering group on Draft Final Report	29.05. 2007
Phase 4 – Final	Submission of the Final Report	27.08.2007
	Two final presentations	No later than 1.12.2007

3.2. The qualitative interviews

The interviews which underpin the findings of this report were with:

The European Commission
Ministry of Finance (Netherlands)⁵

Organisations represented on the Slovenian Changeover Board:

- Bank of Slovenia
- Ministry of Finance
- Government Communication Office
- Ministry of the Economy
- Statistical Office
- Insurance Supervision Agency
- Securities Markets Agency
- Bank Association of Slovenia
- Slovenian Insurance Association
- Slovenian Chamber of Commerce
- Chamber of Commerce and Industry
- Chamber of Crafts of Slovenia
- Slovenian Institute of Auditors
- Ljubljana Stock Exchange
- Central Securities Clearing Corporation.

Other public/semi-public sector bodies/associations:

- Office of Gaming Supervision
- Ministry of Public Administration
- Market Inspectorate
- The Post Office
- Municipality of Kranj
- Chamber of Agriculture
- A Trade Union (Sindikat Delavcev Trgovine Slovenije)
- Association of Software Developers
- Association of the Blind and Partially Sighted
- Association of the Deaf.

Other interviewees were:

- the bank and bank card processing centre,
- seven financial institutions - five banks (one large, three medium-sized and one small), and two insurance companies, and
- twelve non-financial businesses - two manufacturing companies (one of which also has retail outlets), two large supermarket operators, a petrol retailer, a major D-I-Y retailer, three telecoms operators, one cash-in-transit company, one vending machine operator, one fast-food retailer, and two SME retailers (one in confectionery and one in car parts)
- the media - four journalists from print and TV.

⁵ In relation to a ‘twinning’ scheme on communication.

The financial institutions and companies included:

- Four which are state-owned or in which the state is a significant shareholder;
- Five which are foreign-owned or in which foreign companies are significant shareholders;
- Five SMEs; and
- Nine companies not based in Ljubljana.

Where views which we attribute to interviewees are not a consensus view, we indicate the relative importance of the view we are expressing. We have not reflected views which when benchmarked against other facts and information do not appear representative or to be an accurate reflection of events, or involve actions which cannot be considered politically feasible.

We have separated our own findings from our account of the views which were expressed to us, and then indicated in a short section on lessons learned what we believe the success factors to have been, and which are the recommendations of points to be borne in mind by other countries considering introducing the euro.

4. ORGANISATION OF THE CHANGEOVER

Evaluation theme: Organisation of the national changeover in Slovenia

Evaluation sub-themes:

- Efficiency of overall co-ordination
- National Changeover Plan: quality and comprehensiveness
- Involvement of relevant stakeholders in the process

4.1. Introduction

Slovenia set up a Coordinating Committee for Technical Preparations to Introduce the Euro (Changeover Board) when Slovenia joined ERM II in June 2004. It was led by a Vice Governor of the **Bank of Slovenia** and a State Secretary at the **Ministry of Finance**. These joint heads ran the Committee in addition to other tasks.

Other organisations on the Committee were the:

Government: Ministry of the Economy, Statistical Office, Government Communications Office

Regulators: Insurance Supervision Agency, Securities Market Agency.

Associations/Industry Groupings/Civil Society: Bank Association of Slovenia, Slovenian Insurance Association, Slovenian Chamber of Commerce, Chamber of Commerce and Industry of Slovenia, Slovenian Institute of Auditors, Consumer Association of Slovenia, Chamber of Crafts of Slovenia

Other: Ljubljana Stock Exchange, Central Securities Clearing Corporation, Slovenian Investment Fund Association, Ljubljana Stock Exchange Members Association.

The Changeover Board was responsible for producing:

- a Masterplan for the Changeover to the Euro in January 2005 (and two updates in January 2006 and October 2006) (Annexes 3-5), and
- a Masterplan for Communication Strategy on the Introduction of the Euro (Annex 6).

In order to facilitate relations with the European institutions and to help with queries from countries which will subsequently adopt the euro, all these documents were produced simultaneously in Slovenian and English, as were all other major pieces of legislation and strategy documents.

4.2. Efficiency of the overall coordination

Interviewees said they did not see having a combined lead from the central bank and the Ministry of Finance as a key to success in every circumstance. It was clearly seen as having been successful in the Slovenian context, but a key contributing factor to that success was the history of co-operation between the two institutions in the run-up to EU, EMU and Exchange Rate Mechanism membership which had been a seamless, continuous process.

Entry into the euro has been an essentially linear process. The introduction of the tolar when Slovenia attained independence in 1991 was a source of great national pride because Slovenia was independent and had its own currency for the first time in its history. Nevertheless, there was recognition among some economists at an early stage that Slovenia was too small to constitute an optimum currency area. Consequently, the idea of entering the Exchange Rate Mechanism as early as possible, and of adopting the euro as soon as possible, was taken up early. Adopting the euro was a policy objective as early as 1997.⁶ This objective was then pursued consistently, culminating in November 2003 in a joint government/Bank of Slovenia programme for ERM entry and euro adoption.⁷

The two heads of the Board were jointly responsible to government for the success of the changeover. The formal structure of the Changeover Board is at Annex 7 for convenience, but can also be found in the Masterplan for the changeover, with the government represented on the Changeover Board by the Government Communication Office. Broadly speaking, however, the banks' reporting route was via the Central Bank while the rest of the economy reported via the Ministry of Finance. This structure was seen as having the advantage for the banks of working with an organisation with which they were familiar.

Supervision of the introduction of the euro by other financial intermediaries, either directly or through the appropriate regulatory authority, was direct to the Ministry of Finance. The Ministry of the Economy acted as an intermediary route for companies and consumers. In the case of companies, the Ministry of the Economy worked directly with state-owned companies, while the Chambers represented on the Changeover Board were the conduit to the private sector.

These historic reasons which formed the basis for continuity in planning for the introduction of the euro also made it appropriate for the co-chairmanship to be a part-time activity for the heads of the Board. The fact that heading the Changeover Board was a part-time job for the co-heads was not seen as having been a barrier to efficiency in the Slovenian context, or necessarily being a barrier to efficiency in a larger country.

Stability in staffing at every level was, on the other hand, described to us in such terms as 'critical' and 'crucial' at every level, and across government. The degree of detail involved in the project makes it very difficult for people to come on board mid-stream. In the case of Slovenia, the principle of staffing stability was applied at the very top when the Ministry of Finance co-head moved to a position outside government, but continued to exercise this role.

Finally, the level of detail, the importance of good preparation begun well in advance, i.e. three years before entry into the euro, were emphasised without exception by all interviewees.

4.3. Involvement of relevant stakeholders in the consultation process

All stakeholders represented on the Changeover Board expressed satisfaction with the degree of consultation. Many others felt equally satisfied at the way they had been represented by their Associations or a relevant government department, in some cases expressing recognition for the fact that the consultation had been better in relation to the introduction of the euro than on other issues. Generally speaking, the make-up of the Changeover Board was felt to have been representative.

Given the importance of the price issue, the presence of both the Statistics Office and the Consumers' Association on the Changeover Board was felt to have been particularly useful.

⁶ Bank of Slovenia, Annual Report, 1997, p. 49.

⁷ Programme for ERM Entry and Adoption of the euro - Joint Programme of the Slovenian Government and the Bank of Slovenia, November 2003.

There were three provisos to this overall positive picture:

- despite the fact that there was to all intents and purposes a separate reporting structure for banks and other entities, there was a view among some interviewees that the Changeover Board did not always take the specificities of individual sectors into account, but rather to feel that what was appropriate for banks was appropriate for all.
- the case was made strongly to us by some interviewees that IT developers and the tax authorities should not be regarded as second-tier stakeholders who can provide input to the Changeover Board indirectly, but should be directly represented on the Changeover Board. The reasons for this are discussed in more detail in Chapter 7.
- some interviewees felt the particular issues relating to their sector had not been adequately fed into the work of the Changeover Board or that awareness-raising had passed a very few sectors by. While there will always be 'special pleading', the case made by those operating coin- and note-operated systems was relatively compelling, and the taxi industry appears to have woken up late to the impact of the euro in its business.

4.4. National Changeover Plan: quality and comprehensiveness

As noted above, the Changeover Board produced a basic Masterplan and supplemented this with two updates. When the original Masterplan was published, it was assumed that the Convergence Report on Slovenian euro membership would not be published until October 2006. Changeover Board interviewees stress that, in the light of experience, it would not have been possible to complete the changeover on time if the decision on membership had been taken that late.

The Masterplan of January 2005 established the principle that Slovenia would adopt the 'Big Bang' approach to introduction of the euro, i.e. the euro would be introduced as book money and as cash on the same date (i.e. without any transitional period between the two) and would be followed by a short dual circulation period, i.e. shorter than the one-to-two months which was the norm for the then euro-area countries.

That plan still left a number of key issues open, e.g. it was at that time envisaged that the dual circulation period would only be one week, whereas it was subsequently increased to two weeks in the First Update of January 2006; the original Masterplan established the principle of compulsory dual price display, but did not fix the duration; it established basic principles on the items to which dual price display would be applied, but these were not finalised (with some changes in the case of the list of items) until the Act itself was drafted; the analysis of legislation which would need modification was not in the original Masterplan, but in the First Update. The accounting and tax rules were in the Second Update (though they had been available from mid-2006.)

4.4.1. THE LEGISLATIVE UNDERPINNING

The two major pieces of legislation prepared by the Changeover Board were the:

- Act on Dual Display of Prices in Tolars and Euro published in the Official Gazette of the Republic of Slovenia, no 101 of 11 November 2005 (Annex 8).

This made dual price display (subject to a list of exemptions) compulsory from March 1st 2006 to June 30th 2007, and is dealt with in greater detail in Chapter 6;

- The Euro Adoption Act ('Euro Law') (Annex 9). This was approved by the Slovene cabinet in July 2006, but did not enter into force until November 26th 2006.

This law established the conversion rate in Slovenian law, set the dual circulation period (zero hours on January 1 to midnight on January 14), the period during which banks would convert tolar to euro free of charge (zero hours on January 1 to March 1 at midnight), and made it illegal to give change in tolar during the dual circulation period.

It established the requirements for account conversion, the methodology for debt redenomination and enshrined in law the principle of continuity of contract. It set the principles for conversion of interest rates, indices and rates of exchange.

It set the rounding rules and established that as from the euro adoption rate the selling prices of goods and services should be converted into prices in euros with not less than three decimals and expressed in not less than two decimals⁸, that four decimals should be used for pricing certain low value units (e.g. utility prices) that three decimals should be used for certain items, such as petrol.

It stated that the word "evro" in all its inflections would be replaced by appropriate inflections of the word "euro" in legal acts and other regulations⁹.

The Act should be read in conjunction with a number of other pieces of basic legislation, and with some subsequent amendments via primary or secondary legislation, some of it not directly relating to introduction of the euro and not all of it available in English.

For example, the rules on capital redenomination were incorporated in a modification to the Companies Act, but were then subsequently modified in 2007 via a Court Registries Act to make it simpler for smaller companies to redenominate; the December 31st business day was extended by means of an exchange of letters between the Chamber of Commerce and Industry and the Ministry of the Economy to 4 a.m. to allow businesses open on New Year's Eve to close out their books in tolar after the last revellers had left; a requirement that the euro symbol be used on invoices and price lists was legislated for in February 2007.

4.4.2. PERCEPTIONS OF THE NATIONAL CHANGEOVER PLAN

The concept of the 'National Changeover Plan' cannot be considered as being comprehensive without taking both the Masterplans and the legislation into account. The quality of the Plan can only be assessed taking this broader view. In that connection, there was a clear difference in perceptions among interviewees between those close to the Changeover Board and those working via intermediaries, such as their trade associations.

For the former, the Master Plan was a 'Bible' to quote one interviewee and there was a confidence that what the Plan said was going to be translated into legislation and/or a knowledge of what was going to be in the legislation, i.e. that the legislation would reflect expectations or what they knew of discussions in

⁸ This respects the principles of EU law on the use of six significant figures, but we encountered cases of confusion where it was thought that the position of the government had changed from one of requiring six decimal places to use of only three. While we do not think a formal recommendation on communicating on this is necessary, we do believe it is relevant to understand the importance of communicating this clearly.

⁹ This has been a sensitive issue, with Slovenes attached to the continued use of 'evro' for everyday purposes.

the Changeover Board. Some interviewees not directly privy to the preparatory discussions on the January 2006 update to the Masterplan, in particular, felt on the other hand that it was published late in relation to their planning needs.

In the broader economy beyond those directly involved in work within the Changeover Board (including the associations), interviewees told us that it was not the Masterplans that were the driving force, but the Dual Price Display Law - both for its content and the role it played in awareness-raising - and the preparations for the Euro Law and other legislation, such as the changes to the Companies Act, notably on capital redenomination and no-par value shares, on the requisite changes to accounting rules and to tax requirements, and on the flow-on impacts for IT.

Interviewees in this group, even in larger entities, were often unaware of the work - or even the existence - of the Changeover Board and the Masterplans, or did not feel it was relevant to them. The Changeover Board funnelled information largely through associations, which we are aware did make considerable efforts to disseminate the information, but who nevertheless represented an additional step in the process. A number of interviewees felt that it would have been desirable for the Changeover Board to have had a higher profile as such.

The Changeover Board did not, for example, have a website of its own. Information for entities beginning their preparations two-to-three years in advance, e.g. the finance sector in the broadest sense of the word, government departments, trade and industry associations, and some large non-financial companies, was not available in a single location. The national communication strategy site, www.evro.si, contained some of the necessary information, but not all regulatory materials, and in any event did not go on line until February 2006.

Many felt that only the Euro Law gave them the certainty they needed to finalise their preparations for the euro, and that this had been finalised late. While drafts circulated in advance, this was not considered as enough to provide certainty for many players, both in the public and private sectors. Indeed, there were some minor changes with relatively significant practical impact in the light of the comments by the European Central Bank.

The draft was submitted on May 12th 2006, and the ECB gave its opinion on June 12th 2006. The European Central Bank was consulted by the Slovenian authorities on the draft Law on the basis of Article 105(4) EC; according to this provision, the ECB shall be consulted by national authorities on any draft legislative provision in the ECB's fields of competence. National legislation is not allowed to prejudice the EU Council's decision regarding abrogation of the derogation from euro membership and the date on which this abrogation takes effect. Consequently, any legislation adopted before that must be carefully worded.¹⁰

National legislation can be adopted before the formal Council decision on the abrogation of the derogation, with the proviso that it will only enter into force "upon euro adoption" or "once the derogation becomes effective" - an approach adopted in the dual display legislation. National law can, however, not refer to the adoption of the euro at a specific date (e.g. 1 January 2007) as long as the Council Decision on the abrogation of the derogation has not been taken.

¹⁰ The European Central Bank also gave an opinion on the procedures and method for exchanging banknotes and coins denominated in tolar for banknotes and coins denominated in euro, and the conditions for transport, storage, security, provision of collateral and statistical monitoring in this respect. The relevant draft decision - which was submitted to the European Central Bank in August 2006 - also established the regime for frontloading and sub-frontloading of euro banknotes.

The ECB noted in the case of the Slovenian draft that "According to Article 28, the draft law 'shall enter into force on the fifteenth day after its publication and shall take effect from the day following the publication of the Council decision on abrogation of the derogation pursuant to Article 122(2) of the Treaty' ... Certain provisions of the draft law containing specific dates (e.g. Article 11(3), potentially Article 16 and indirectly Article 8(2)) presuppose that Slovenia will adopt the euro on 1 January 2007."

This was, it noted, not going to cause problems in practice because the "consulting authority" had informed the ECB that the draft law would be submitted to the Slovenian Parliament only after abrogation of the derogation.

This meant in this specific case, therefore, that - because of the approach it had adopted - the government of Slovenia did not finalise the law until July 2006 and it was not promulgated until November 2006, having in the meantime needed to pass through the legislature.

4.5. Findings

We conclude that the overall co-ordination by the National Changeover Board was effective. The fact that it was headed jointly by a representative of the Bank of Slovenia and the Ministry of Finance on a part-time basis was logical in the Slovenian context and was not only not a barrier to effective co-ordination, but actually contributed to it. Another success factor was the recognition at the highest levels of government of the importance of the work of the Changeover Board, conferring it with authority to carry out its tasks. Stable staffing from the top down also contributed significantly to the success. The fact that the Changeover Board was set up in 2004 further contributed to the successful outcome.

We conclude that the membership of the Changeover Board was on the whole representative, but believe that there is a case for paying attention at an earlier stage than was the case in Slovenia to IT, accounting and tax issues, and that one solution to this would be to widen the membership of the Changeover Board.

We note the absence of local government, trade unions, the Ministry of the Interior (for security and cash-in-transit issues) and the Ministry of Public Administration from the Changeover Board, though they provided input as necessary through sub-groups. In the Slovenian context, these were not issues, but we draw attention to the fact that these are entities and institutions that might have a place in the Changeover Board in countries with different socio-economic structures and traditions.

We believe that the Slovene Changeover Board and its target audiences would have benefited from an independent identity and strategy for communication purposes within the overall communication strategy, with as a minimum its own website from a very early stage.

We consider that the inability or unwillingness of economic entities to take the final steps in their preparations until the legislation establishing the basic principles of introduction of the euro is in place could be a serious barrier to successful introduction of the euro in a large country and/or a more complex economy unless that legislation would be adopted at least one year in advance.

Consequently, while the quality and comprehensiveness of the Slovenian National Changeover Plan (in the broadest sense of the word) were not an issue, there were issues in relation to timing on release of detail, and to some extent in relation to dissemination of information. While there was sufficient certainty about the entry date for planning in the private and public sector to start, lack of certainty about the fine print did cause arguably unnecessary hiccoughs in preparation in the closing stages. If decisions on euro membership continue to be taken in mid-year and Parliaments are not in session over the summer period, and governments prefer to wait until the formal decision before adopting umbrella legislation, it is almost inevitable that the legislation will not be passed until the autumn.

The problem of tight timetables based on this type of scenario could be exacerbated in a country with strict rules on government departments not including in their budgets for the following year funding for events which are uncertain, and who are therefore unable to make budgetary provision until the year of the decision. It could also be exacerbated where public procurement procedures are lengthy, and/or where the outcome of public procurement procedures are frequently subject to challenges, as we are aware that many public procurement procedures in Slovenia related to introduction of the euro were completed 'just in time'.

The timing issue would also be even more problematic in a country which did not have the same level of political consensus on the introduction of the euro, or where decisions are often disputed via litigation. It is important to note, therefore, the importance of providing certainty on detail well in advance, by whatever means is appropriate.

4.6. Recommendations

We recommend that other countries planning to introduce the euro:

- learn from the recognition at the highest levels of government in Slovenia of the importance of the work of the Changeover Board and the authority this conferred, and the stability of its staffing and hands-on approach from the top down;
- set up their Changeover Board at least three years in advance;
- include players from outside central government, including private sector associations and civil society, on their Changeover Board, and consider the Slovenian Changeover Board as a model, but one which should be adapted to national socio-economic structures;
- recognise the importance of the ability (at every level of the Changeover Board and across the public sector) to manage a complex project with tight time frames and immutable deadlines;
- confer a clear identity on the Changeover Board and resource it so that it can have an independent communication strategy, and at the minimum a website, from the earliest stages within the overall national strategy;
- provide the certainty needed for economic operators, including those of government, no later than one year before the date of euro adoption by whatever means are appropriate (publication of a regularly updated national changeover plan; publication of final drafts of national legislation relating to the introduction of the euro at an early stage; adoption of legislation on the introduction of the euro well in advance, with the proviso that it enters into force once the abrogation becomes effective, etc.)

5. THE CASH CHANGEOVER

Evaluation theme: ex-post evaluation of the cash changeover

Evaluation sub-themes:

- **Preparation prior to €-day**
 - Timeliness and effectiveness of the frontloading operations; identification of problems and shortcomings
 - Timeliness and effectiveness of the sub-frontloading operations; identification of problems and shortcomings
 - Sufficiency and effectiveness of the supply of businesses and individuals with starter kits
 - Preliminary backflow of national currency notes and coins
- **Activities after €-day**
 - Rhythm of conversion of cash dispensers to issuing euro banknotes; euro banknote denominations issued in cash dispensers in the first two weeks of January 2007
 - Smoothness and efficiency of the backflow of national cash, including the free exchange of notes and coins by commercial banks
 - Problems encountered (logistics, transport and storage of cash, counterfeiting etc.)
- **Assessment of the speed of the euro cash changeover**
 - Evolution of the share of euro cash transactions in all cash transactions in January 2007; evolution of the share of retailers giving change in euro only in the course of January 2007
 - Appropriateness of the length of the dual circulation period.

5.1. Preparation prior to €-day

5.1.1. INTRODUCTION

Slovenia received 94.5m banknotes from the Eurosystem via the Bank of Austria (with a total value of €2.175 billion.)¹¹

Notes were delivered to the vaults of the Bank of Slovenia and in most cases re-distributed via the intermediary of five deposit banks, who are traditionally used as hubs for distributing cash. The option of dealing directly with the Bank of Slovenia (an option not normally available) was offered as an alternative, but not widely taken up.

Minting of the coins began on 12 July 2006. The Mint of Finland produced 296.3m euro coins with a total value of €104m, and an overall weight of 1,465.2 tons. The first shipment of Slovenian euro coins arrived on September 4th 2006. Further shipments followed in thirteen weekly intervals.

While the timetable for the coin deliveries may seem late, minting did not start until after the formal decision on Slovenian entry had been taken. The timing was also affected by what is likely to have been a one-off issue, i.e. the finalisation of the designs and procedure for approving mass production of the new common sides of euro coins which previously represented the European Union of 15 Member States and needed as a result to be modified to reflect the impact of the EU's wider membership. Slovenia was the first country to use the new common sides of euro coins.

These delays, and in particular, changes to initial plans caused some problems for the cash-in-transit industry. In a larger country, this could have a more significant impact on the logistics. We note that minting coins is one of the most time-consuming aspects of the changeover process, and in a large country it can take well over a year or more to mint sufficient coins if only one mint is used.

We note that there is intrinsically no reason why a country needs to use its own coins to introduce the euro, and Slovenia at an early stage considered the implications if it were not able to mint coins in time. It came to the conclusion, however, that this was a politically unacceptable solution even in a country with a high level of acceptance of the introduction of the euro.

Indeed, creating an image of the new coins as one of being particularly attractive relative to other countries' and emphasising the use of the Slovene language on the coins was seen as a key element in part of the preparations for the introduction of the euro and acceptance of the euro. Having photos of actual coins available for this purpose at the earliest possible stage was seen as important.

In order to ease the changeover, pensions were paid out one week (de facto three working days) early in December 2006, since approximately 20% are paid out in cash through the Post Office. This eased the burden on the banks. In terms of the impact on cash use in the economy, interviewees indicated that they had felt neither positive nor negative impacts.

¹¹ A more detailed description can be found in Annex 10, which is an extract from the Bank of Slovenia's March Price Stability Review.

A key element in the preparation was the planning by the Bank of Slovenia - with interviewees commenting particularly favourably on the professionalism of this aspect - and within individual financial institutions, and to some extent cash-handling businesses.

The ultimate success owed a great deal according to interviewees to a simulation exercise run by the Bank of Slovenia in April 2006. This was a practical exercise in the logistical implications of the cash changeover in different scenarios, and financial institutions themselves analysed this carefully, including the implications of moving from a note-heavy to a coin-heavy scenario. Nevertheless, there is anecdotal evidence that the weight of the coins was not fully taken on board everywhere until the first pallet of coins arrived on the doorstep of the bank. The total weight of the coins minted was 1,457 tonnes.

The complexity of forecasting cash requirements in the Slovenian context

The Bank of Slovenia's forecasts of cash requirements were based on the two methodologies available from the European Central Bank combined with the Bank of Slovenia's own calculations. Using the ECB methodologies alone would have resulted in an order of €2.8 billion. The actual figure of €2.3 billion took tolar in circulation (€850m) and the desirable level of strategic reserves into account. In practice, the note order, in particular, was extremely conservative. In hindsight, much less could have been ordered, but relevant interviewees do not regret the policy of being risk-averse.

The reason for the overshoot was the large amount of euro cash already in the economy, largely because of the special characteristics of the Slovene economy where the euro has traditionally been used as cash under the mattress, but which was also 'in the pockets' of Slovenes for their regular use on frequent trips outside the country. It is estimated by the Bank of Slovenia that as much as €400m-€600m may have entered circulation from these sources from January 1st 2007.

While there was an awareness that this pool of cash existed, there was no basis for making a sound assumption of how much this represented. Consideration was given to carrying out surveys in advance, but it was not felt that this would give a reliable result as Slovenes would be reluctant to reveal the extent to which they were hoarding euro cash.

Moreover, even accurate forecasts would have proven inaccurate in practice because certain banks, including the largest in Slovenia, subsequently announced that they were exchanging tolar for euro in December 2006 at the conversion rate. As the current ECB rules do not allow frontloaded amounts to be used before the official date on which the euro is adopted, these banks chose to purchase these euro as foreign exchange in Austria and absorb the cost, both as a promotional measure and to reduce the pressure on them at the time of the changeover.

It is estimated by the Bank of Slovenia that no less than €100m and as much as €150m may have entered the economy this way.

Therefore, as a minimum as of January 1st, there was already in the economy in euro the equivalent of 60% of the tolar in circulation, and as a maximum nearly 90%.

5.1.2. TIMELINESS AND EFFECTIVENESS OF THE FRONTLOADING OPERATIONS;
IDENTIFICATION OF PROBLEMS AND SHORTCOMINGS

The frontloading of euro banknotes began on 29 November 2006. By 15 December 2006 the complete amount of 41.5 million banknotes, which had been ordered by the commercial banks under the frontloading regime, had been handed over¹² to banks. This amounted to €771.96m, i.e. 35.5% of the total obtained from the Eurosystem.

Frontloading of euro coins to banks started on September 25th, 2006. By end-December 2006, the Bank of Slovenia had frontloaded some 250 million coins worth €83.2 million to bank vaults. This included starter kits made up by the Mint of Finland. In volume terms approximately 47% of the frontloaded coins had been prepared as starter kits:

- 150,000 starter kits for retailers, each worth €201.00;
- 450,000 starter kits for the public, each worth €12.52;
- 100,000 collectors sets with a face value of €3.88.

No interviewees reported any problems with obtaining deliveries at the time they needed them, even though - as indicated above - the cash-in-transit industry felt it had needed to be particularly flexible in dealing with changes in delivery dates for the coins. There were no problems with capacity in the cash-in-transit industry.

It is clear from interviews that the bare facts of this successful frontloading mask a great deal of detailed and complex advance planning.

The argument was made by some interviewees that in the situation of countries adopting the euro from now on, i.e. where euro cash is already available, the restriction on using frontloaded cash to provide euro at the conversion rate even prior to the date of adoption of the euro should be eased and the economy should be allowed to euro-ise in advance. A potential downside of this would be the increased risk that euro would 'leak' into circulation. However, we encountered no evidence that making euro available in this way created pressure on retailers to start accepting the euro before January 1st 2007.

5.1.3. TIMELINESS AND EFFECTIVENESS OF THE SUB-FRONTLOADING
OPERATIONS; IDENTIFICATION OF PROBLEMS AND SHORTCOMINGS

Banks started supplying traders with euro coins on 1 December 2006, and euro banknotes on 11 December 2006. 225 businesses received sub-frontloaded cash. They received €10.1 million in euro banknotes, €8.8 million in coins. In addition, retail kits were sold to a value of €7.24 million - making a total of €16.04m in coins.

No interviewees reported any problems with obtaining deliveries at the time they asked for them. The system was flexible enough to accommodate supplying at least one large retailer on January 1st/2nd. There were no reported problems obtaining cash-in-transit capacity.

¹² One large bank received part of the banknotes only after this date, but at its own request, because of internal capacity restraints.

Interviewees did see the conditions attached to sub-frontloading as restrictive in terms of the precautions they were required to take to prevent euro leaking into the economy (and the penalties attached if that happened). Given the fact that there were no shortages of cash in the economy at the beginning of January 2007, these restrictions do not appear to have been a deterrent to enough cash being sub-frontloaded, though we are aware of one case of coins being acquired in large quantities commercially in Austria as being seen as preferable to being sub-frontloaded. It is not possible to say whether the sub-frontloading would have been adequate had there not already been large amounts of euro in people's pockets and had small retailers not stocked their cash registers from their personal holdings (see next section).

One interviewee with a major retailing operation felt that there were too many or too few of certain coins in circulation, but this has not been reflected in any nationwide imbalance which has required action by the Bank of Slovenia.

Some interviewees were surprised by the number of high-denomination tolar notes used for payments, which was higher than in the past, and both ran contrary to the received wisdom that Slovenes only kept euro 'under the mattress' and an apparent expectation that such notes would be deposited/exchanged at banks. Where such high-value notes were presented, retailers did not always have sufficient change in euro, even though they were statutorily required to give change in euro, but this was dealt with pragmatically.

On the other hands, a significant amount of coin was exchanged at banks on the first two days of the New Year, somewhat surprising at least one major bank, which had expected coin to be spent despite its low value.

As in the case of frontloading, it is clear from interviews that the bare facts of this successful frontloading mask a great deal of detailed and complex advance planning, which should not be underestimated.

5.1.4. SUFFICIENCY AND EFFECTIVENESS OF THE SUPPLY OF BUSINESSES AND INDIVIDUALS WITH STARTER KITS

5.1.4.1. RETAIL KITS

Retail starter kits were available with a value of €201. The make-up of the kits was a mix of coins considered suitable for retailers on the basis of consultation in early 2006 of larger retailers by the Bank of Slovenia.

In practice, the starter kits were little used. Out of a total of 150,000 kits, only 36,020 were sold. Retailers instead either ordered tailor-made kits from their banks, or took coins and notes in standard rolls, or in the case of small businesses run by the self-employed used their personal holdings of euro cash. In some cases, retailers initially placed orders for the kits with their banks, and then cancelled them.

The reasons for the lack of success of the retail kits appear to be relatively straightforward as there was a consensus on this amongst interviewees. Retailers' views were sought in the first quarter of 2006. At that time, they were not far enough advanced in their planning (and indeed had often not yet started) to have given proper thought to the issue. In addition, there is no such thing as a 'one-size-fits-all' retailer kit, in terms of total value or mix. Some interviewees felt the kits *might* have proved more attractive if they had contained €5 notes.

The fact that small retailers had personal holdings of euro and/or were often already accepting euro which they could 'hoard' in advance of introduction of the euro also played a role. As many Slovene small

businesspeople are self-employed, they were able to put bridging cash from their personal holdings into the business; in at least one instance, insurance agents are also known to have done this.

The ability to obtain cash - inclusive of €5 notes - from the bank on January 1st and 2nd (when 52 branches were open, but most shops were shut) was another contributing factor. Some interviewees also indicated that they knew they could be confident that their customers would already hold euro, both in note and coin form.

Some interviewees felt that it would have helped to have had a methodology available for calculating their small-change requirements for the changeover. Consideration was in fact given by the Bank of Slovenia to adapting software developed for this purpose in Austria. However, the idea was dropped because of the cost of combining the cost of acquiring the rights, and the cost and time involved in modifying the parameters for the local market. Some interviewees who had used the software in the unmodified form found that it nevertheless gave an accurate result, while others did not.

Whether they used software or 'the back of an envelope', or were lucky because of the amount of euro already in the economy, retailers appear to have forecast and obtained their requirements fairly accurately, as we uncovered no evidence of major shortages/problems.

5.1.4.2. STARTER KITS FOR THE GENERAL PUBLIC

By the end of December, 85% of the 450,000 starter kits for the public and 46,725 starter kits produced by banks themselves had been sold; 82% of the 100,000 collector kits had been sold. As far as can be ascertained, banks satisfactorily forecast demand. There was some pressure on supplies in the first couple of days, and there were some local bottlenecks, but these problems were quickly ironed out.

Despite the fact that the kits were kept deliberately simple to discourage hoarding, interviewees in Slovenia believed that a large number did not enter circulation, but were kept as souvenirs - not just because they made useful Christmas gifts, but because Slovenians might believe that their own coins could very quickly become a rarity in their own country because of the amount of interchange between Slovenia and other countries.

One of the lessons learned from the changeover was the high demand from collectors for the starter kits for consumers. Coins from these kits fetched significantly more than their face value in coin shops and on Internet auction sites immediately after the introduction of the euro.

Overall, there was satisfaction with the distribution of starter kits for the general public and their acceptance by the general public. Interviews with retailers indicate that customers were paying with coins from the beginning of January and that, in some cases, coin use was higher in the first few days, and indeed weeks, of the year than subsequently.

The relative role of existing coin holdings in this and of the starter kits for the general public cannot be quantified. Interviewees felt certain that their customers in fact already held euro coins, but there is no way of substantiating this.

5.1.5. PRELIMINARY BACKFLOW OF NATIONAL CURRENCY NOTES AND COINS

There was no policy to encourage the backflow of national currency notes and coins prior to January 1st

2007.¹³ Tolar notes nevertheless began flowing back to the Central Bank before 1 January in particular because some banks, including the largest, were exchanging tolar for euro (or euro deposits) without charging an exchange commission from December 1st 2006. This is felt to have eased the subsequent pressure on the backflow.

5.2. Activities after €-day

5.2.1. RHYTHM OF CONVERSION OF CASH DISPENSERS TO ISSUING EURO BANKNOTES; EURO BANKNOTE DENOMINATIONS ISSUED IN CASH DISPENSERS IN THE FIRST TWO WEEKS OF JANUARY 2007

ATM conversion had been identified as one of the most critical aspects of the changeover. Consequently, particular attention was paid to this, including the risk that the data links might fail. The 1,524 ATMs – which are the means by which 70% of cash enters the Slovenian economy according to the European Central Bank - were converted rapidly and smoothly despite some particular challenges, e.g. that they come from several different suppliers and there is no single type of software. There were occasional glitches (ATMs which failed to convert immediately, or which debited the wrong amount), but these were quickly rectified. We note that the conversion may have been facilitated by the fact that ATMs in Slovenia offer fewer functionalities than those in some other countries.

The smooth changeover was the result of meticulous planning according to interviews: the project plan incorporated a micro action plan for every ATM (timing of the changeover, people responsible, back-up solutions etc.) Each ATM was manually tested within a half hour of being changed over. 30% of ATMs were working in the first half hour after the euro changeover and a further 45% were working in the first two hours. All ATM's in public places (as opposed to those in stores, for example) had been changed over by the end of January 1st (Annex 11).

The risk of failure was reduced by moving some ATM data connections in advance from the GSM to the UMTS network, which has much greater spare capacity.

ATM's were used less than usual in the first couple of days in order to obtain cash, though withdrawal levels returned to normal within a week. ATM's were, however, used more intensively than usual to consult account balances, i.e. to check that conversion had been successful. They were used more than five times as much as usual for this purpose on January 1st, more than three times as much on January 2nd, and well above normal levels on the following two days. (Online banking experienced similar high levels of usage with the result that the speed of service slowed significantly.) There may be specific reasons for this in the Slovenian context, as indeed some interviewees believed to be the case, i.e. that behaviour was influenced by a major IT issue at a large Slovene bank earlier in this decade. The fact that parallel € and tolar accounts were being merged for many people may have been a factor, but it would require survey data to substantiate either of these hypotheses.

ATMs were loaded with €10 and €20 notes in order to be sure to get low-value notes in the economy. As of May 2007, this was still the loading pattern, but consideration was being given to whether to start

¹³ The ECB regards this as good practice to facilitate the logistics of this withdrawal (particularly given the bulk and weight of coins in circulation and the special storage facilities needed). However, withdrawal of coins was less of an issue in Slovenia because of their low value, and the ratio of notes to coins in circulation.

loading €50 notes¹⁴.

Interviewees do not report either any switch to the use of credit or debit cards as an alternative to cash in early January 2007 or excessive pressure on banks for the exchange of tolar in the first couple of days of 2007.

This appears to confirm that the economy was already highly ‘euro-ised’ at that point.

A smooth changeover of ATM's is clearly critical, and the punishment in the media for a failure would have been severe. Nevertheless, some interviewees wondered whether it was necessary to devote so much resources to conversion of ATM's in such a short space of time, particularly given the fact that:

- the speed of the conversion increased the systemic risk;
- there was not likely to be (and there was not) the same rush to ATM's in the early hours of January 1 as there was on January 1st 2002.

5.2.2. SMOOTHNESS AND EFFICIENCY OF THE BACKFLOW OF NATIONAL CASH, INCLUDING THE FREE EXCHANGE OF NOTES AND COINS BY COMMERCIAL BANKS

The backflow of tolar notes was very rapid. As of January 1st 2007, some 28% of the total outstanding value of tolar banknotes had already been returned. By January 11, it was 80% and by end-January, 91.5% - despite the fact that tolar could still be exchanged for euro without charge until March 1st. The corollary of this was that at end-of-day on January 1st (when most retailers were still closed, but banks were open), the value of euro banknotes officially in circulation was higher than that of tolar banknotes, a position reached only after two weeks in the euro-area taken as a whole in 2002. The value of euro banknotes to the total value of euro banknotes and tolar notes in circulation was 55.36% on January 1st 2007.

The return of tolar coins was much more gradual. At end-of-day on January 1st 84.77% of coins (by value) were still in circulation. At end-January, 71.5% were still outstanding at the end of January, and 64.1% at end-May 2007 (84.8% by number of coins). As the value of the largest tolar coin in circulation was €0.21 and Slovenians had come to disregard most coins in their change, this was not unexpected. Moreover, there were no government or other campaigns (e.g. by charities) to encourage or facilitate the return of coins. Many of these coins are likely to remain ‘down the back of the sofa’.

Banks continued to exchange tolar notes and coins for euro free of charge until March 1st 2007. Since March 12th and until end-2007, it is possible to exchange tolar notes and coins free of charge at two banks - NKBM Nova kreditna banka Maribor and Deželna Banka Slovenije. These successfully tendered in early 2007 to take this on in what is a win-win situation for the Bank of Slovenia as it is more consumer-friendly and also cost-effective. The usage of this service was expected to be low, unless there

¹⁴ This is a question of a trade-off between the frequency of re-loading and amounts which sort average withdrawals. It was not, however, an option at the beginning of 2007 as ATM's standardly contain four note holders, of which two were loaded with tolar and two with euro, with the first two being de-activated and the second two activated at the time of conversion. A number of interviewees expressed the view that ATM's should be loaded with €5 notes, but we recognise that the €5 note is not generally considered technically suitable for this purpose because of its size.

was a year-end rush, as the amount of tolar in circulation is low and remained stable over the spring months of 2007. Notes and coins can also be exchanged free of charge at the Bank of Slovenia.

The backflow of notes and coins does not appear to have caused any particular problems. It was helped by being spread over a period beginning on December 1st 2006 when some banks began accepting tolar for euro cash or deposit at the official conversion rate in December 2006.

5.2.3. PROBLEMS ENCOUNTERED (LOGISTICS, TRANSPORT AND STORAGE OF CASH, COUNTERFEITING ETC.)

Logistics, transport, storage: As indicated above - and bearing in the mind that this was the result of careful planning, interviewees reported no logistics, transport or storage issues - subject to isolated cases of shelves buckling under the weight of the coins, the need to work around the fact that not all banks have vaults, and the logistical aspects of unloading at post office branches in rural areas where staff consists of one person staffing the branch and one delivering the post.

High-value notes: The issue of whether high-value notes, and in particular the €500 note, could be accepted emerged in the first few days of 2007 as a source of confusion. The number of instances where €500 notes (and €200 notes) were presented was limited according to retail sector interviewees. Many interviewees in fact felt the issue had been blown out of proportion by the media. Nevertheless, the issue was genuine in the first few days when hoarded notes did appear in small quantities.¹⁵

The confusion arose because retailers originally received information that they could refuse high-denomination notes if they put a notice in their stores to that effect. However, this was not covered by the Euro Law, which merely states that all euro are legal tender. The final interpretation by the Slovene Ministry of Finance was, however, that such notices were not legal, but that the principle of proportionality applied to individual transactions, and that the Market Inspectorate would take a pragmatic approach. The Ministry of Finance issued a statement clarifying its interpretation on December 28th 2006.¹⁶¹⁷

Counterfeiting: The need to identify counterfeits was taken very seriously. Slovenia had been relatively exposed to counterfeiting prior to the introduction of the euro. There was also a recognition that counterfeiters are intrinsically more attracted by the euro than they were likely to have been by the tolar.¹⁸

Slovenian institutions and businesses focused heavily on counterfeiting in their training and purchase of

¹⁵ Demand for €500 notes remains high – higher than anticipated, but they are not being spent in retail shops.

¹⁶ www.mf.gov.si/slov/mediji/2006/spor1_28_12_06.htm

¹⁷ We note that this is not intrinsically an issue which cannot be resolved by legislation. For example, even though the French penal code makes it an offence to refuse legal tender, Article 112-5 of the French monetary code places an obligation on the debtor to provide the right change and this was upheld by the Cour de Cassation, the Appeal Court, in December 2005. The monetary code also makes it possible to make the acceptance of legal tender conditional on proof of identity if there are suspicions that the source of the money or the money itself may not be legitimate.

¹⁸ It was also recognised - and interviewees had concrete instances of this, though it had been successfully combated - that introduction of the euro made Slovenia more attractive for computer-based bank fraud (via 'hacking').

new equipment, in part because they knew it would have a more attractive currency for counterfeiters and in part because it had been paid particular attention by counterfeiters prior to introduction of the euro. Only the figures for Italy and Bulgaria were higher in 2005. Slovenia has in the past also been the target of counterfeiting concentrated on notes of high value - €50 and above - to a greater extent than other countries.

The incidence of counterfeiting rose in the first few months of 2007 relative to the extent of counterfeiting of the tolar, but not sufficiently to cause alarm. The initial indications were, moreover, that the extensive training and purchase of anti-counterfeiting equipment by banks and cash-handling businesses had been effective, as counterfeits were being detected at cashier and teller level. Counterfeiting appears to have been restricted to notes in the first instance, predominantly €10, €20 and, in particular, €50 notes. Counterfeiting of coins increased, but was low relative to the number of coins in circulation.

Charges for coin return by business: After the introduction of the euro, there were protests from retailers at the cost of returning coins to the banks. These charges were based on practices with tolar coins, which had a much lower value and which were not returned to banks to the same extent. The value of the tolar coins nominally in circulation ranged from 10 stotins to 50 tolar (€0.21). The implications were described to us as a 'make or break' issue for some small and medium-sized enterprises.

A combination of forceful lobbying by business associations, market forces and moral suasion by the Bank of Slovenia brought the charges down. Whereas previously the maximum charge had been around 4%, prices aligned at a level of around 1-2% of the value of the coins.

Night deposit arrangements: A related issue, which surfaced frequently in interviews and which it appears not all banks had thought through in advance was the need for new night deposit arrangements suited for the deposit of coins in addition to notes.

Charging of individuals: An issue which was emerging as of May 2007 was the charging of individuals for certain cash transactions, e.g. a 2% commission on changing a €500 note into smaller denominations.

Confusion over new coins: We are not aware of any confusion because the 'common' sides of the Slovenian euro coins are the first to use the new designs showing the enlarged EU.

However, we do have some indications of lack of awareness of businesses in existing euro-area countries that a new euro coin had been introduced (and needed to be tested in coin-operated machinery).

While the Mint of Finland (which minted Slovenia's coins) did make arrangements to allow large operators across the euro area to test Slovene coins, the evidence we collected suggested that there were gaps in the dissemination of information and availability of coin samples.

5.3. Assessment of the speed of the euro cash changeover

5.3.1. EVOLUTION OF THE SHARE OF EURO CASH TRANSACTIONS IN ALL CASH TRANSACTIONS IN JANUARY 2007; EVOLUTION OF THE SHARE OF RETAILERS GIVING CHANGE IN EURO ONLY IN THE COURSE OF JANUARY 2007

There was a legal obligation under the euro law to give change in euro from January 1st in order to optimise the rate at which cash tolar disappeared during the two-week dual circulation period. According to the European Commission's daily monitoring, by 4 January 2007, all change was being given in euro. By the end of the dual-circulation period, 90% of those surveyed were only carrying euro notes, and 82%

were operating solely with euro coins¹⁹.

There has been nothing in our interviews to suggest that these surveys are not correct. In fact, they underpin these findings, with some retailers interviewed reporting virtually no need to 'give change in euro' because customers were immediately paying in euro.

The fact that it was possible to go to the bank to change tolar for euro in December 2006 and in the first two days of 2007 is thought to have helped, but this cannot be quantified. There is also some evidence of credit cards and debit cards being used more in December 2006 which one interviewee attributed to a sign that customers were running down the tolar in their pockets. However, unbundling this effect from pre-Christmas spending using cards in order to delay payment is not possible.

The concept of giving change in euro from day one was not uncontroversial with retailers, who in many cases felt and continue to feel that they should not be used as bankers. At a practical level, however, it posed no particular problems. Interviewees felt that the familiarity of the population with the notes and coins, and the fact that many people already had euro notes and coins to spend from their personal holdings considerably facilitated giving change in euro (and indeed the whole changeover).

5.3.2. APPROPRIATENESS OF THE LENGTH OF THE DUAL CIRCULATION PERIOD

The dual circulation period was two weeks, of which January 1st and January 2nd were public holidays in order to allow a four-day period for the conversion of financial systems (December 30 and 31st were a Saturday and Sunday). The Stock Exchange was shut on December 29th - enabling them to settle final trades in tolar, since the Stock Exchange still operates on T+2 settlement. Most retailers were shut on January 1st and 2nd.

The fact that the changeover fell on a weekend followed by a Monday and Tuesday, as it did in the first wave, was fortuitous, but recognised as having considerably facilitated planning and changeover.

As indicated above in discussing the Masterplans, the original plan was for a one-week dual circulation period. This was extended to two weeks following further discussion.

It was a characteristic of the first-wave changeovers that people had to experience a dual circulation period to believe that it could actually be very short. This also appears to have happened in Slovenia, with many interviewees believing a one-week circulation period would after all have been feasible and some arguing that a pure 'Big Bang' would have been possible in which tolar would only have been exchanged by banks.

We encountered contradictory views as to what is best. We reflect them here as an indication of a clear consensus that a two-week dual circulation period, while it had a perfectly satisfactory outcome, was not necessary and there could be other approaches.

Many felt a one-week dual circulation period would in fact have been desirable. Of these, many retailers, and some others, felt that retailers should not be asked to act as banks at all. Some felt a complete 'Big Bang' in which tolar could only be taken to the bank from January 1st would be feasible.

Others felt that a smooth changeover could be achieved without obliging retailers to give change in euro, but to leave it to their judgement and to communication with the general public on the cut-off date for

¹⁹ EB Flash Eurobarometer 204

nevertheless getting rid of their tolar in shops flanked by clear communication on the fact that tolar can be exchanged at banks for a much longer period for those who have surplus amounts of national currency.

Only a minority of banking and retail interviewees felt that a one-week circulation period would put too much pressure on the banks.

No one interviewed argued for a longer dual circulation period.

5.4. Findings

We conclude, therefore, that the cash changeover was extremely smooth and was the result of meticulous planning and close supervision of the banking sector by the Bank of Slovenia. The over-ordering of bank notes was the result of an understandable risk-aversion combined with the lack of data on the amount of euro cash already held by residents of Slovenia, and the unforeseeable sale of euro by some banks at the conversion rate in December 2006.

The smooth changeover was independent of the rapid conversion of ATMs. The advantage of rapid conversion of ATMs was as a confidence-building measure in terms of overall public relations and reassurance for customers that account conversion had been seamless. It is important to be aware, however, that the more rapid the conversion, the greater the systemic risk, and that some interviewees would have preferred the less rapid Greek model.

We note that there may have been particular circumstances in Slovenia why reassurance about seamless account conversion was needed, and it cannot be assumed that the behaviour of the general public in the other 'pre-in' countries will be identical. It can also not be ruled out that ATMs will be used more for note withdrawal when the euro is introduced in other countries. Factors which would play a role would include the nature of the communication, e.g. if those countries run a more 'emotional' campaign designed to generate more excitement about the introduction of the euro; the extent to which the euro is already present in people's pockets; the duration of the dual circulation period.

ATMs therefore played some role in introducing low-value notes into the economy, but did not play a significant role in introducing euro into circulation in early January 2007. On the contrary, they played less of a role in introducing cash into the economy than usual.

We note that ATMs play a much more important role in Slovenia than in general in 'pre-ins' (Annex 12), and that the changeover process will always be influenced by the relative importance of different types of payment, including debit cards, of which Slovenia also has relatively high usage (Annex 12) and cheques (which play a negligible role in Slovenia)²⁰.

We also note that technology in this area is advancing rapidly. Additional functionality may make ATM conversion more complex. New forms of electronic payments are also emerging. Payment by mobile phone exists in Slovenia, but only on a small scale.

We conclude that the retail kits were of limited usefulness. The reasons include the difficulty of finding a kit to fit all sizes of retailers and the fact that retailers focus late on their changeover requirements. The existence of euro in the pockets of customers and self-employed retailers provided a cushion which meant that retail kits were not necessarily needed on a large scale in the Slovenian context.

²⁰ Conversion of POS terminals also played a part. This is discussed in Chapter 7.

We conclude that the starter kits for the general public served a useful purpose, but note that it is not possible to separate the public relations value of the kits from their actual usefulness during the cash changeover.

We conclude that the Big Bang scenario of introducing the euro as book money and cash at the same time posed no problems in the area of the cash changeover.

We also conclude that a two-week dual circulation period was not necessary to a smooth cash changeover or a smooth backflow in the Slovenian context, and that a one-week dual circulation period would have been feasible.

While the fact that euro cash was available at the conversion rate in December 2006 was a factor in easing the changeover and the backflow, but this should be seen in context: the amount of euro introduced into circulation in this way was only around one third that believed already to have been in the economy.

We agree that there was no reason where coins are of such low value for campaigns to encourage their return, but note that this might not be appropriate for countries with high-value coins which the general public will want to return, and the return of which needs to be organised in an orderly fashion in order to avoid piggy banks and jam jars being emptied out in front of the teller for immediate counting²¹.

The existing euro-isation of the economy was clearly a major factor in the smooth changeover. Other factors which contributed were the relative importance of credit and debit card use relative to a number of other non-euro-area countries in the EU.

The fact that most retailers were closed on the first two days of the year contributed to the gradual transition and made it more likely that banks would be used to exchange money rather than retailers.

5.5. Recommendations

We recommend that other countries preparing to adopt the euro:

- carry out a cost/benefit analysis of the value of surveying the amount of euro holdings of their citizens when assessing the amount of euro notes to order and coins to mint;
- conduct an analysis and discuss with the European Central Bank the advantages of using frontloaded cash for sales to the general public at the conversion rate prior to the date of introduction of the euro;
- in taking decisions on the speed of conversion of ATMs weigh appropriately the relative importance of the public relations value, the possibility that they will play an important role in reassuring the general public that account conversion has been seamless, the role of ATMs in introducing money into circulation in a given country, and the systemic risk in rapid conversion of all ATMs;
- make a cost/benefit analysis in the light of the Slovenian experience as to the usefulness of retail starter kits as such, and of including €5 notes in retail starter kits;
- regard starter kits for the general public as good practice, and factor in the likely demand from collectors for starter kits in addition to collector kits be factored in to calculations of requirements;

²¹ This was the experience of the German *pilot* on World Savings Day in 2000, when banks found themselves not only with coins to sort and count, but also jam jars and piggy banks to dispose of.

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- consider adopting the approach of creating an obligation to give change in euro from the date of the introduction of the euro onwards;
- consider campaigns to encourage the orderly return of coins if their coins are of relatively high value;
- decide the length of the dual circulation on the basis of what is appropriate for the national context, but not consider that the size of a country *per se* has a relationship to the length of the dual circulation period;
- ensure that attention be paid to disseminating information via mints and euro-area/EU trade associations to the need for economic operators in the existing euro-area, notably those with coin-operated equipment, but also retailers, to be made aware that new coins are in circulation and have comprehensive access as required to coin samples for testing.

6. CONSUMER PROTECTION

Evaluation theme: The role of dual price display and fair-pricing agreements²²

Evaluation sub-themes:

- Implementation of mandatory dual price display according to the law
- Application of fair pricing principles
- Involvement of the public sector in the promotion of fair-pricing policies and associated monitoring
- Neutrality of price conversions in the public sphere (fees, fines, amounts in national legislation, etc.)
- Effect of the changeover on prices (reality and public perception)

6.1. Introduction

Protecting consumers during the introduction of the euro is ultimately about protecting them from unjustified price increases, though the abuse may take different forms - from straightforward price increases for no good reason to use of the wrong conversion rate in order to make a price increase.

The two top-down tools which have proven to be most effective at achieving this are dual price display and fair pricing agreements. In Slovenia, the emphasis was placed on the former, at least at first.

Contrary to the philosophy of the first-wave countries of separating the two elements, Slovenia took the view that by making dual price display compulsory from an early stage, it could achieve a dual objective with a single piece of legislation, providing this was accompanied by monitoring of what was actually happening to prices.

Fair-pricing agreements were nevertheless adopted by the government and the private sector in December 2006.

Flanking measures included special analysis by the Statistical Office of Slovenia, the Consumers' Association PriceWatch scheme, and the work of the Market Inspectorate.

The end-result, overall, was a limited impact on inflation, similar to the true, as opposed to the perceived impact, of introduction of the cash euro in 2002.

According to an initial analysis by the Institute of Macroeconomic Analysis and Development (IMAD) (Annex 13), the total effect of the euro changeover on the consumer price index amounted to 0.24 percentage points. IMAD did not believe that the euro changeover affected long-term inflation dynamics,

²² In line with discussions in the Steering Group, this is a separate Evaluation Theme that pulls together strands from different parts of the Terms of Reference.

but it had a significant effect on some groups of the CPI, notably on services in restaurants and cafes. Eurostat put the figure at 0.3% (Annex 14).

This analysis is borne out by the results of a Eurobarometer survey in February 2007, in which 6% of the enterprises admitted to have adjusted their prices upwards in the context of the changeover, while in the hotel and restaurant sector, the figure was 15%. This was in line with the results in a November 2006 Eurobarometer, which also indicated that 6% planned 'mostly' to put their 'psychological' prices up when the euro was introduced, while this figure was 21% in the hotel and restaurant business.

6.2. Implementation of dual price display according to the law

The Act on the dual display of prices (Annex 8) became law on November 15th 2005.

The Act states that the purpose of the reference dual display and the dual display of prices shall be:

1. to provide an organised transition during the changeover of the monetary unit of the Republic of Slovenia;
2. to allow customers to adapt gradually and prepare for the valuation of goods and services in euros;
3. to prevent higher inflation due to the introduction of the euro through comparable prices.

The law included total or partial exemptions from mandatory total dual price display for a number of activities, including petrol stations, catalogues, certain fresh foods, vending machines, books and publications, gambling operations, small and craft companies, goods and services already priced in euro and farmers selling directly to consumers. It also included eased requirements in a number of other circumstances, such as small businesses issuing handwritten receipts, unit prices or digital price displays. Interviewees expressed satisfaction with the exemptions apart from some issues of detail relating to the pricing of insurance policies already denominated in euro.

Dual display became mandatory on March 1st 2006. It remains mandatory until June 30th 2007. The conversion rate for dual price display, including for voluntary dual price display prior between November 15th and March 1st 2006, was the central parity within the exchange rate mechanism until such time as the conversion rate was set and the conversion rate thereafter.

We note that the European Commission emphasises that it regards it as completely inappropriate to introduce compulsory dual price display before the official decision on adoption of the euro and the fixing of the conversion rate. The reasons are that it

- prejudices the EU Council decision on euro adoption - and there are already examples of countries fully expecting to introduce the euro on a given date and then eventually not meeting the conditions,
- prejudices the EU Council decision on the conversion rate,
- creates potential for confusion in consumers' minds if the rate for dual price display prior to adoption of the euro is not the eventual conversion rate, or if introduction of the euro does not go ahead as originally planned.

There is also a potential double cost for the economic operators who have to introduce dual price display if they have to repeat (or annul) the operation if the conversion rate is not the initial dual-display rate (or if euro introduction does not go ahead as envisaged).

In practice, the ERM II central rate became the conversion rate and the Slovenian authorities were always confident that that would be the case. The authorities felt that clear rules on dual price display before the

conversion rate was set were necessary because of a risk of voluntary dual price display in anticipation of introduction of the euro (and for tourists) at a range of rates. If dual display had only initially begun to appear in tourist areas (a concept difficult to define in many countries, including Slovenia), there was, according to the Slovenian authorities, a risk of it not remaining ring-fenced in the Slovene context. It is also possible that a major retailer would have seen this as a promotional/commercial opportunity, which others would follow without a clear regulatory framework.

In order to counter the perceived risk of confusion from a range of rates being used, the Slovene legislation required the use of the ERM II central rate for any voluntary price display from the time the legislation entered into force in November 2005. The Slovene legislation made dual displays based on the central rate mandatory from March 1st 2006.

A key reason for introducing compulsory dual price display before the final decision on euro adoption was taken was to act as a deterrent to price increases. This was a specified purpose of the law. Interviewees close to the decision-making and in trade associations regularly stressed to us that this had been a primary purpose, and that there had been an expectation that dual price display legislation as such would be anti-inflationary (and therefore obviate the need for fair-pricing agreements). It is arguable whether this was a justifiable expectation, but it was clearly a widely held view.

The cost and timing of dual price display were the main issue for interviewees. As the legislation was passed in November 2005, they felt that they had enough time to prepare. The date from which mandatory dual price display applied, however, was the most controversial aspect of the Act. At the time the legislation was being discussed retailers were unhappy at the idea that they were potentially exposed to a change in the rate to be applied after the introduction of compulsory dual price display. This was both because they felt it could confuse consumers and because of the potential cost to them of re-labelling a second time (which either involved product-by-product labelling with labelling guns in the case of a small retailer or replacing all shelf labels in the case of a supermarket, an operation which can take all night.) Interviewees still felt strongly about this at the time of the fieldwork for this review despite the fact that in practice the central parity and the conversion rate were ultimately identical.

Economic operators saw no direct benefits from the dual display at such an early stage, whereas the authorities and trade association did feel that it had been anti-inflationary. If that was the case, the legislation fulfilled one of its purposes. In terms of consumer acclimatisation, on the other hand, such early dual price display is unlikely to have been useful. We are not aware of any evidence that the general public focuses to any extent on dual price display before the last three months prior to introduction of the euro.

Interviewees also believed that dual price display had created a marginal upward price pressure in two respects:

- the cost of dual price display²³;
- the cost to retailers who were already accepting euro on a significant scale. These retailers were in principle allowed to charge for the fact that they were accepting the euro as foreign exchange, but this was widely regarded by interviewees as impractical. They assumed that retailers would have recouped this through their prices. Motorway toll booths did put the additional charge into practice and reportedly encountered confusion and negative publicity.

²³ For cost data, see Chapter 7.

Dual price display in practice

The Market Inspectorate, which was responsible for monitoring compliance with the Act on dual price display, began its euro-specific activity when mandatory dual display came into force on March 1st, 2006. The purpose of the first round of inspections was mainly preventative and to check the status.

In the first week of March 2006, it conducted 1,291 inspections and found 396 irregularities. By end-March 2006, a total of 1,611 inspections had been carried out and 589 irregularities found. Inspections mostly focused on retail shops, restaurants and cafes, and other retail service providers (hairdressers etc).

Most of the irregularities dealt with missing signs for the parity rate of 239.64, i.e. the dual display as such was correct and the conversion rate was correct, but there was no separate sign to indicate that all prices were converted at €1=SIT239.64. This was a requirement of the law, but the message appears not to have got through in the communication about the requirements. There were also some instances where dual display had not been applied to every product, but the shop was clearly making a best effort.

All the infringements found corrected, with 13 warnings issued, and 13 fines imposed (fines ranged from €500-€1,500), i.e. in less than one percent of offences. Fines were imposed strictly in cases where a warning was not adhered to after a period of a week or so and never at the first visit. Given the positive results, no specific euro-related inspections were repeated in 2006, though dual display was monitored during the course of normal inspections. No further significant irregularities were found.

A second round of euro-specific inspections was carried out in the period 25.12.2006 to end- January 2007. A total of 879 inspections were carried out, 142 irregularities found, 141 warnings issued, and 1 fine imposed. The Inspectorate also received 110 reports from the general public, of which around half of which dealt with price increases. (The others related to signs indicating that notes of larger denominations would not be accepted, shops refusing tolaars or not giving change solely in euro.)

The Market Inspectorate took soft approach to infringements in lines with its standard practice in new legislation. However, the fact that they were highly visible over the key periods is felt to have had a significant deterrent effect.

6.2.1. CONTINUATION OF DUAL PRICE DISPLAY BEYOND JUNE 30TH, 2007

In terms of continuation of dual price display beyond June 30th 2007, interviewees were broadly divided into three groups:

- those who had not yet taken a decision,
- those who would definitely stop dual price display on July 1st, 2007, and
- those who would phase it out, bringing it to an end as prices changed, but leaving it as long as existing labels (mainly shelf labelling) could be used.

Interviewees did not indicate that they would use the end of dual price display to put up prices - with one exception where this was implicit.

6.3. Application of fair-pricing principles

Fair pricing agreements were adopted by both the government and the private sector in December 2006. Some, but not all, interviewees felt that this was too late to be useful. There was no fair-pricing agreement with the banking sector.

There were a number of reasons for the timing. First and foremost among these was a conviction in both the public and private sector that dual price display was in itself a sufficient safeguard against price increases (as reflected in the stated purposes of the legislation).

Three other views were also frequently expressed:

- (i) that it would be wrong in a market economy to go beyond the steps taken via the dual price display law, the PriceWatch scheme (see below) and the dissemination of actual information by the Statistical Office (see below);
- (ii) that a certain number of price increases, particularly in the non-tradable goods sector, were inevitable and Slovenia would just have to 'bite the bullet';
- (iii) price increases around the time of the introduction of the euro were an inevitable step in a process of price convergence with the result of the EU, and with the euro-area in particular, with the comparability with neighbouring countries focusing attention on the price gap, and the potential for closing it²⁴;

²⁴ The aggregate price level of products and services for final household consumption in Slovenia was in 2005 and 2004 75% of the EU-25 price level. In 2003 it was a percentage point higher (76% of the EU-25 average) according to a release by the Statistical Office on May 7th, 2007. In 2005, prices of products for household consumption were in Slovenia 16% and prices of services a bit more than 30% lower than the EU-25 average.

- (iv) consumers should have taken for granted that business would behave responsibly in pricing. The suggestion that it would be otherwise was an 'insult', according to one interviewee.

A combination of factors appears to have contributed to the reasons for a change of stance in December 2006. These included pressure from the European Commission, a realisation that - contrary to expectations - retailers were on the whole not using their pricing honesty as a marketing tool, and the build-up of publicity for price increases. Continuing unfavourable publicity for price increases in the banking sector earlier in the year was also a catalyst for evolving thinking on this.

The fair pricing agreement for the private sector (Annex 15), which was an initiative of the Chamber of Commerce (i.e. the organization mainly representing retailers) adhered to also by the Chamber of Commerce and Industry, and by the Chamber of Craft, stated that:

The Assembly of the Slovenian Chamber of Commerce encourages traders to take a commitment to refrain from increasing their selling prices due to transition to the new European currency.

By December 21st, 410 businesses had signed up to this, including some, but not all, major retailers.

One of the difficulties with the price commitment was that it was limited to retailers. Several interviewees commented that a price commitment can only be useful if it extends to suppliers. This is particularly the case for small retailers who tend to be 'price-takers'. One retailer which did use its price commitment as a promotional tool included a proviso that prices could change if suppliers changed prices, and in fact noticed that supplier prices began to rise in November/December 2006 as suppliers moved to new 'psychological' prices.

Retailers' own policies on whether to move to psychological prices varied, but large retailers appear to have opted for straight conversion. Smaller businesses, including service business, appear to have been more likely to have repriced at 'psychological' prices or prices which would minimise their small change requirements and transaction time, i.e. round numbers or prices ending in 'five' cents.

6.4. Involvement of the public sector in the promotion of fair-pricing policies and associated monitoring; Neutrality of price conversions in the public sphere (fees, fines, amounts in national legislation, etc.)

The government's fair pricing agreement of December 7th 2006 (Annex 16) stated that it:

would not increase financial amounts as a result of the introduction of the euro. This applied to all ministries, levels of government and local administrative units. The agreement also contained a recommendation to the same effect to the courts, local authorities, other bodies governed by public law and corporate entities that are partly or in large part owned by the state.

There are no reported instances of this agreement being breached by central government or its local administrative units (as opposed to local authorities). Most other entities also complied, though there were some highly publicised cases of municipal parking fees rising.

It is not possible to say what the impact was on public opinion of the government commitment. We have no evidence from interviews that it was anything other than credible, but nor do we have evidence that it contributed significantly to perceptions on price behaviour.

In a report to Parliament on the changeover to the euro in early 2007, the government of Slovenia acknowledged, however, that it could have done more to ensure that corporate entities owned partly or in large part by the state followed this recommendation.

Exceptions to the rule were rare in this sector, but some utilities increased unregulated prices and the Post Office came under the spotlight for a significant price increase. While the increase applied only to mail forwarding for businesses which change address, it was - predictably - the size of the increase not the item or the underlying justification which got the attention.

6.4.1. FLANKING MEASURES

Monitoring of actual price trends was carried out in two ways:

- Special analysis by the Statistical Office
- A PriceWatch scheme, operated by the Consumers' Association and its associated research institute as a sub-contractor of the government Consumer Protection Office.

The relative responsibilities of the two were set out in a formal agreement (Annex 17). It was agreed that:

The Statistical Office would carry out additional surveys involving:

- detailed presentation of the subgroups of goods and services with the price trends seen in a particular month that had the greatest effect on the overall price trends (breakdown of the monthly inflation);
- presentation of the subgroups of goods and services with the price trends seen in the last month/quarter that deviated the most from their price trends during the same period of previous five years.

The Consumers' Association was to:

- monitor retail prices for goods and services during the euro changeover in the Republic of Slovenia, in compliance with the methodology elaborated by the International Consumer Research Institute,
- would not publish general price indices for the entire basket or for individual group of goods and services,
- publish data on prices for individual products or services and on price indices for individual subgroups of goods or services and report on significant, unjustified upward or downward changes in price with an indication of the particular seller and the product or service.

In the interests of consumer protection and transparency, the government of Slovenia also issued recommendations on pricing for low-value units for items such as petrol and mobile phone calls as part of the first update to the Masterplan (Annex 4). These are also reflected in the euro law (Annex 9).

6.4.1.1. PRICE MONITORING BY THE STATISTICAL OFFICE

On the basis of the agreement mentioned above, the Statistical Office monitored prices particularly closely from April 2006 (soon after the start of the period of dual price display), and will continue to do so at least until the end of the period of dual price display. It has systematically compared prices each month with the situation in the same months of the previous five years, and publicizing the reasons for any increases, where increases are objectively justified, e.g. bad harvest, higher raw material costs. There were objective reasons for most price rises up until December 2006 according to the Statistical Office.

However, it said in January that there were no obvious objective reasons for the increase in the prices of services in restaurants and cafes (restaurants, inns and coffee shops), "where the rises were not sporadic but general phenomena." Prices in this subgroup in the past were generally relatively constant in the last month of the year (with the exception of 2003, when there was an increase of 0.3%, they rose by 3.2% in December 2006 (2.8% for food and 3.7% for beverages) (Annex 18). Higher prices of services in

restaurants and cafes alone contributed 0.12 of a percentage point to the 0.4% inflation rate in December 2006. The statistical office also noted 'unusual' price increases and rounding in a number of other specific categories, ranging from toiletries and cosmetics to firewood. These contributed another 0.12 of a percentage point to December's inflation. A number of 'usual' price increases also contributed to the inflation rate²⁵.

The perception of price increases is particularly paradoxical, though consistent with economists' observations of behaviour in the presence of expectations of inflation, because Slovenia experienced deflation in January and February. According to the National Statistical Office, consumer prices fell in January by 0.5% (the third year in a row of deflation in January). Goods prices dropped 0.9%. The price of semi-durable goods dropped 8.7% (reflecting the impact of the January sales) and of durables by 0.5%, while the price of non-durables went up by 1.2%. The prices of services rose 0.2%. Prices fell by a further 0.2% in February. Goods were on average 0.2% cheaper: prices of non-durable goods fell by 0.3% and of durable goods by 0.1%, while prices of semi-durable goods went up by 0.1%. Prices decreased on average by 0.1%.

In April 2007, prices went up 1.1% compared to the previous month, and in the first four months, they rose 1.3% compared to 1.5% over the same period of 2006.

6.4.1.2. PRICEWATCH

The Slovene Consumers' Association (SCA-ZPS) together with the International Consumer Research Institute (ICORI-MIPOR, a joint venture of the Slovene Consumers' Association and the British Consumers' Association) carried out separate monitoring of the prices of selected goods (accounting for roughly two thirds of the sample) and services (one third of the sample) across Slovenia. This PriceWatch scheme was funded by the Bank of Slovenia and the government of Slovenia.

Price monitoring started in February 2006 and covered a basket of 104 representative items, including 68 products and 36 services. The selection was based on the consumer products and services which proved most susceptible to price increases in first-wave countries, (hospitality services, hairdressers, drycleaners, parking fees, lottery, etc.). It covered not only shops, but other types of selling, such as doorstep and distance selling. The monitoring was conducted quarterly in all Slovenian regions. Price increases did not start to show up until November 2006.

In December 2006, the Association launched a black list which 'named and shamed' specific companies who had increased prices by 6% or more, while at the same time giving an explanation for the increase where one was available. The items included on the list were based on its own monitoring and notification by consumers. The Association received some 750 notifications of price increases from consumers between December 29th 2006 and January 10th 2007. Of these, nearly two thirds were in the service sector and just over one third related to goods.

The Consumers' Association, in a presentation to a conference in Ljubljana in January 2007, also reported that prices - increases, conversion errors and perceptions of abuses, such as a 199 tolar shop becoming a 99 cent (rather than 83 cent) shop were high on the list of the most frequent questions to its hotline over the changeover period.

The first PriceWatch results for 2007 (the fifth since the surveys started) were published on 5 March 2007 and related to prices in February for a predefined basket, for goods and services about which the SCA had received complaints from consumers, and from goods and services which the SCA had itself identified as having been subject to price increases.

²⁵ No such analysis for January was available at the time of writing.

The SCA found that between February 2006 and February 2007, 42% of prices for services remained constant, 8% decreased and 50% went up. The corresponding figures for goods were 39%, 26% and 35%. However, between November 2006 and February 2007²⁶, over the full basket, 56% of prices remained constant, 25% went down and 19% went up. For services, the corresponding figures were 52%, 8% and 40%; for goods, they were 58%, 26% and 16%.

Nevertheless, consumers believed in general that prices went up. 83.4% of consumers believed that prices went up with the introduction of the euro; 56% believed they went up significantly. Moreover, despite the evidence that the main increases were in the service sector, 57% of consumers believed that retailers were to blame for the price increase.

The impact of PriceWatch

The PriceWatch scheme was controversial among interviewees, with many interviewees feeling it had thrown the spotlight excessively on the negatives, and obscuring message about the underlying reasons for price increases, e.g. the price of a cup of coffee from a vending machine had been unchanged at SIT50 (€0.21) for thirteen years and the ex-VAT price of parking in municipal car parks in Ljubljana had not risen since 1997 and was well below commercial rates. A number of interviewees felt that they obtained a more sympathetic hearing from the media when going to them direct with explanations for their price increases than they did from the Consumers' Association.

In terms of highlighting the negatives, we note that some businesses also fell into some traps that might perhaps have been avoided or better communicated. A major retailer removed a popular brand of bread out of its 'everyday low price basket' shortly before introduction of the euro. Another increased the price of 'frozen French fries' from Croatia by 50% - an example which seems to be becoming part of folk myth, with the underlying reason of a general price increase in the price of potatoes totally lost in the telling.

The difficulty of unbundling valid economic reasons from the impact of the euro is also illustrated by the experience of the banks. There was a frequently expressed view in interviews that banks had contributed to perceptions that introduction of the euro was inflationary by increasing prices in anticipation of the introduction of the euro.

The reasons given by the banks for the price increases in early 2006 were alignment of pricing structures in implementing the Regulation 2560 on non-discriminatory treatment of cross-border euro payments and domestic payments²⁷, combined with a catch-up in tariffs which had fallen behind their economically justified level as a result of a restructuring in the early part of the decade which transferred to the banks the cost of payments from a state system inherited from ex-Yugoslavian practice.

Research on behalf of the Consumers' Association suggests that the size of the increase may nevertheless have been disproportionate, particularly when compared with the relative cost of banking in Slovenia compared to other countries. The Consumers' Association has also done research which it believes points in the direction of abuses of a dominant position and anti-competitive behaviour.

Whatever the reason for them, the higher bank charges do appear to have influenced perceptions of the impact of the euro on prices, and the banks laid themselves open to accusations of opportunism by increasing their charges just before the price monitoring began.

Overall, interviewees nevertheless generally paid tribute to the work of the Consumers' Association for:

²⁶ Figures are only available for the full basket for the 11/06-02/07 period, not for the full year to February 2007.

²⁷ A process which can lead to domestic payment prices rising, since there is no obligation to provide any payments service free of charge.

- having been highly influential in making companies 'think twice' before increasing prices, and
- developing a consumer rights' culture in Slovenia by raising awareness of a right to fair prices and a right to complain.

6.5. Effect of the changeover on prices (reality and public perception)

The impact of price increases, and the perception of increases, was the major issue in the wake of the introduction of the euro in the first-wave countries, and the perception that the euro was inflationary has not died. On the contrary, it has been strengthening – as of September 2006, 81% of respondents in the euro area thought the euro had put prices up, compared to 78% in October 2005. Public perceptions that the changeover to the euro would increase prices appear to have increased in Slovenia as the time for the changeover approached.

Interviewees had no suggestions as to how this could be avoided given the experience of the first wave, and the persistence of the view in euro-area countries that the euro had an inflationary impact. Slovenia shares a common border with Austria, where the euro became known as the 'Teuro'²⁸. Slovenia also shares a common border (and in some areas a common language) with Italy, where it is a widespread myth that retailers converted on a 'one-to-one' basis rather than on a 'two-to-one' basis (i.e. something which was previously priced at Lit 1,000 was priced at €1 after the introduction of the euro, rather than at slightly more than half that.)

The phenomenon is well documented. "It became almost common wisdom to argue that price setters took advantage of the psychological conversion of 1,000 lire into 1 euro, which would basically amount to a doubling of the price: "everybody knows that one euro is now worth 1,000, not 2,000, lire", an opinion sometimes also put forward by members of the administration... A major factor affecting the public perception, however, may have been the substantial cumulative price increase which took place over the whole 1998-2002 period: around 40 per cent on average, or even 75 per cent for the 10 per cent of establishments which recorded the largest price rises. These observations help to form a conjecture on the factors that may have favoured the "perception" of an exceptional rise in prices among consumers; such an increase, while it actually took place, occurred more gradually during the years than perceived."²⁹

Interviewees also felt that perceptions of price increases were related to consumers not yet having developed new points of reference, either between the coins and the price, and over-spending with coins because of an inherited perception that coins are not worth anything and therefore anything that can be bought with coins must be cheap, or because of the need to adjust to a very different scale of values between five hundred units rather than one hundred and twenty thousand (€500, which is around SIT120,000, is the average level of monthly pension). The Slovene national communication campaign recognised this issue in advance and addressed it through specific messages, but the communication messages cannot totally substitute for personal experience.

Some interviewees felt that consumers would have had a better sense of their purchasing power if there had been a €1 or €2 note, and felt that other countries adopting the euro which could have a still lower purchasing power risk facing the same phenomenon in the absence of low-value notes.

²⁸ A combination of the German word for expensive 'teuer' and the word 'euro'.

²⁹ Pricing Behavior And 'The Introduction Of The Euro: Evidence From A Panel Of Restaurants': Eugenio Gaiotti And Francesco Lippi, from February 2005 draft, subsequently published in *Giornale degli economisti e annali di economia*, Vol. 63, No.3/4.

Broadly speaking interviewees felt that the actual price increases were a question of what the market would bear, while the perceptions of the price increases were the result of expectations raised by the media on the basis of foreign experience and a focus on the price increases highlighted by the PriceWatch scheme.

Against this background, it was felt that the factual messages from the Statistical Office and the communication on this issue from the Government Communication Office did not get an adequate hearing.

There was a widespread feeling among interviewees that more official resources should have been put into publicising good practice, with a 'white list' being one means of doing this. They did not see this as a role for the private sector.

Overall, therefore, it was felt that:

(a) more resources should have been devoted to publicising price restraint and individual cases of good practice;

(b) the government declaration on good practice in the public sector and the statements by the Chambers on good practice in the private sector should have been published sooner, allowing more time for their use as promotional tools.

6.6. Findings

We conclude that compulsory dual price display worked well in terms of transparency of information and posed no problems of compliance. We also conclude that compulsory dual price display served a useful, if probably unintended, purpose in raising awareness in business of the issues relating to the introduction of the euro, months ahead of €-day.

Given the extent to which the euro was already familiar to Slovenes and the confidence felt throughout the economy that Slovenia would adopt the euro on January 1st 2008, we consider that the Bank of Slovenia's assessment that the risk of confusion from a plethora of rates even as early as late 2005 was greater than the risk of confusion from the rate possibly changing subsequently has a certain merit.

We accept the argument that in the specific Slovene context it is likely that voluntary dual price display would have started at an early stage with the risk that it would be at different rates. This would possibly not have been restricted to tourist areas, which moreover includes major cities. The requirement, established in Slovenian law, that any voluntary dual displays had to use the ERM II central rate as from November 2005 can be considered as an appropriate means to address the concern that, otherwise, businesses may have used a range of rates.

We do not believe that dual price display necessarily needs to be compulsory, but this did in the Slovenian context facilitate monitoring and enforcement. Enforcement of dual price display did prevent actual and potential abuses in conversion and rounding. There are, however, countries with traditions of voluntary agreements for which that might be a more appropriate approach.

We do not believe that compulsory dual price display as such affected price formation to any significant extent, contrary to the stated intent of the legislation. This, therefore, negates one of the primary purposes of introducing dual price display ten months before the adoption of the euro.

We also believe that dual price display only carries significant advantages in terms of accustoming consumers to a new scale of values in the final months, and even weeks, before introduction of the euro. Early dual price display is therefore not necessary for that reason.

While, according to our judgement, the introduction of dual price display before the conversion rate was fixed was not a source of confusion *in the Slovene context*, it may in some instances have complicated communication with the general public, though there is no evidence that this was a widespread problem.

Any decision to introduce dual price display at a required rate before the irrevocable fixing of the conversion rate requires careful risk analysis. On the one hand, there is the risk of confusion and the extra costs which could arise if the ERM II rate and the subsequent conversion rate are not the same, or a country has been wrong in assuming that it will be ready for euro membership. On the other hand, there is the risk to the image of the euro throughout the euro area and beyond if negative publicity ensued in such circumstances.

We conclude that the true impact of the euro on inflation in Slovenia was limited and in line with experience in the euro-area, but that this did not prevent the public perceiving that prices had gone up. There was a quite natural focus among consumers on everyday items. Prices of many of these items are the most likely to rise because they are in non-contestable goods and services. A process of price catch-up in some key items and the 'black list' scheme operated by the Consumers' Association heightened the perception.

Price restraint was seen as good business practice by Slovene businesses, but not adequately publicised given the proactive stance of the Consumers' Association and the reasonable expectation on the basis of experience in other countries, notably in Austria and Italy, that first-wave perceptions would spill over into Slovenia.

The dissemination of information by the Statistical Office on the true picture was highly professional, but necessarily limited in its impact by the need for the Statistical Office to retain a neutral and independent stance.

We note the importance of the Statistical Office and the PriceWatch scheme capturing behaviour after the end of compulsory dual price display, and have concerns that the special monitoring agreement ends on June 30th 2007. While no interviewees were prepared to admit openly that their intention was to increase prices at that time, it would be naïve to expect otherwise.

We believe that fair pricing agreements were adopted by the government and the private sector too late in terms of obtaining adequate and timely publicity for good practice. We believe that the fair-pricing agreements should not only be adopted earlier, but should also extend to the banking sector. Particular attention should be paid to fair-pricing agreements in the hotel and restaurant industry, and other sectors selling everyday goods and services (e.g. parking meters), and to raising the awareness of operators in these sectors of the importance of communicating the reasons for price increases.

We conclude, however, that the 'bad news' stories, particularly given what are now embedded perceptions of the inflationary impact of the introduction of the euro, will always largely prevail.

Therefore, whatever best efforts are made to explain the true situation, a perception that the euro has put up prices will remain extremely difficult to combat.³⁰ Consumers will always be more influenced by the price of a bus ticket or a cup of coffee than the overall statistical impact of introduction of the euro.

The more granular the currency in relation to the euro, the more likely it is that this will be the case because of the enhanced difficulty of building a new scale of values and reference points. (The table at Annex 20 illustrates the relative granularity of the currencies of potential euro-area members.)

³⁰ It is beyond the scope of this review to discuss why price controls would not be effective or desirable, and no interviewees suggested to us that they should be considered.

6.7. Recommendations

We recommend that countries considering adopting the euro:

- decide whether to make dual price display mandatory or voluntary in the light of national circumstances and in the light of the Slovenian experience, in particular, that, in practice, mandatory dual price display was not as such anti-inflationary, and bearing in mind that the benefits in terms of consumer information and transparency come only very late in the run-up to introduction of the euro;
- learn from the Slovene experience of special analysis of price movements and the PriceWatch scheme, including considering how greater publicity can be given to good practice;
- monitor pricing behaviour in Slovenia after the end of the 16-month period of dual price display;
- consider fair pricing agreements as best practice rather than relying on dual price display to produce price restraints;
- introduce a fair pricing agreement six-to-nine months before the introduction of the euro;
- encourage adoption of such agreements, by the whole of the public sector, including local government, and by the banking, transport and retail sectors, and extend them to embrace suppliers;
- pay particular attention to inclusion of the hotel and restaurant industries, and industries using coin-operated equipment, and to raising the awareness of this sector to the need to communicate on reasons for price increase;
- ensure that the agreements are well publicised on the basis of a clear upfront agreement on the relative responsibilities of the public and private sector for publicising good practice.

7. CHANGEOVER IN THE PUBLIC AND PRIVATE SECTOR

Evaluation theme - ex-post evaluation of the changeover of the private sector

Evaluation sub-themes:

- Appropriateness of the level of the private sector's involvement in the government's preparations for the national changeover plan and related preparations
- Timeliness of the adaptation of IT, administrative and financial systems to the euro in the private sector (e.g. accounting, payroll, invoicing systems); identification of problems
- Timeliness and smooth changeover of the cash-operated industry
- Timeliness and smoothness of the conversion of accounts and of the changeover of non-cash means of payment

Evaluation theme: ex-post evaluation of the changeover of the public sector

Evaluation sub-themes:

- Timeliness of the adaptation of the public sector's IT, administrative and financial systems to the euro, and
- Preparedness of the public administration (at central and local level) to switch to the euro on time
- Timeliness and completeness of the legislative measures with a view to introduction of the euro
- Costs of the changeover to the euro for the public administration

7.1. Introduction

The changeover in the public and private sectors is a complex, and sometimes costly, undertaking. It involves major IT adjustments in the back-office, pricing issues for management, and complex logistics for cash-handling businesses, including banks and retailers. These logistics are not only a matter of cash handling, but also of customer service, notably taking steps to ensure staffing is adequate to deal with a larger number of customer information requests and to minimise queuing as a result of unfamiliarity of staff and customers with the new notes and coins.

Surveys show that most Slovene enterprises were prepared for the introduction of the euro and did not encounter any particular problems. There is evidence, however, that enterprises may have been less prepared than they thought.

At the time of a November 2006 Eurobarometer, nearly all businesses expected to be ready with accounting, invoicing and payroll systems converted by end-year (97%). However, in an ex post

Eurobarometer in the last week of February 2007, this figure had dropped to 94%³¹.

This is borne out by our interviews. These uncovered the types of minor technical issue inevitable in such a project, but no evidence of systemic problems.

The responsibility for the readiness of the public sector was with the Ministry of Finance. This included responsibility for the readiness of local government. However, the Ministry has no powers to require any action on the part of local government, since local government is autonomous. Local government has no tax-raising powers, so its preparations related largely to its own invoicing, payroll and information systems and areas such as parking meters.

The Ministry of Public Administration was responsible for the preparation of so-called local administrative units, i.e. offices dealing with administrative documents, such as passports and driving licenses.

The Ministry of the Economy was responsible for the many state-owned enterprises, including local utilities (power, gas, town heating, and water), many of which are cash-handling businesses. It worked on a cascade principle with state-owned enterprise of having a first-level cross-section of companies from each sector (utilities, railways and telecoms) with which it worked concretely to provide a lead and tease out the information needed for this group as a whole. While initially reluctant to have been selected because of the extra work involved, these companies then came to appreciate being so close to the answers to their project issues.

The Chamber of Commerce and Industry and the Chamber of Craft were responsible for disseminating information and awareness-raising in the private sector. Both ran seminars, disseminated information via their website, circulars and print publications, and had active press policies - though we note that there were felt to be some difficulties initially in getting the media to focus on the implications for companies of the introduction of the euro, as it is either seen as an economic and monetary issue, a financial markets issue or a consumer issue.

7.2. Appropriateness of the level of the private sector's involvement in the government's preparations for the national changeover plan and related preparations

As noted in Chapter 4, the private sector was closely involved in the preparations for the national changeover plan in the broadest sense of the word, and interviewees generally expressed satisfaction about how this worked via their representation on the Changeover Board through representative associations. We enlarge below on the problems in IT and accounting preparations which led us to the conclusion in Chapter 4 that involvement of these sectors could have been greater.

7.3. Timeliness of the adaptation of IT, administrative and financial systems to the euro in the private and public sectors; and Preparedness of the public administration (at central and local level) to switch to the euro on time

Overall, as indicated above, interviewees considered that preparation had been timely and that companies and the public sector had been able to invoice and pay employees and suppliers without problems from the beginning of this year. In some cases, manual or temporary workarounds were in place because companies had not completed the conversion, and we encountered instances of SIT10,000 being invoiced

³¹ The survey does not provide information, however, either on the extent this is to which it is not possible to convert all accounting systems until the books are closed, generally in March, or on to the extent that manual intervention was being substituted for operations which are normally automated.

or paid as €10,000 (or vice-versa), but we regard this as normal in such a major operation. They were not of an extent that is a cause for concern.

Interviewees stressed the importance of preparation, the complexity of the project and the difficulty of getting senior management to understand the importance of the project in the early stages. This last seems, in fact, to have been a more critical issue in the public sector, or at least in certain ministries, than in the private sector. The end-result appears to have been satisfactory. We have no evidence of problems at either central or local government level.

7.3.1. DRAWING ON THE EXPERIENCE OF OTHERS

There is no clear pattern as to whether interviewees were able to identify and draw on the experience of the first wave in preparing for the introduction of the euro in their business. Whereas one bank drew heavily on the experience of one of its foreign shareholders, another which is a direct subsidiary of a euro-area bank found that there was nothing in the parent company experience which was truly replicable.

It is probably true to say that on balance it was useful to be a subsidiary of a company which had already handled introduction of the euro, but it would be wrong to generalise. Where such experience was available, interviewees said it was well generally documented, though in some cases it came from the personal experience of those involved.

The country on whose experience most interviewees had drawn was Austria. Austria was cited as the source of experience in a number of contexts. Other countries cited tended to be smaller euro-area states, e.g. Ireland and the Netherlands, which were felt to have the most relevant – and best documented – experience. However, the UK was singled out for its work on insurance and documentation on how to manage a company changeover.

For the public administration, the European Commission's PAN group of representatives of public administrations of the Member States was found to be a vital source of information on how to deal with specific issues, as much through networking with participants as information obtained formally. This also applied in the case of those who had access to them to the Council of Economic and Finance Ministers (ECOFIN) and related committees.

Some interviewees were familiar with documentation from the European Commission, such as the 'Standards of Practice' and some of the 'Euro Papers', but these were a minority. Where interviewees were familiar with the key 'Euro Papers', such as 'Preparing Financial Information Systems for the euro' of December 1997 and 'The introduction of the euro and the rounding of currency amounts' of March 1998, they regretted that these had not been updated, both to provide guidance and to take into account a situation where there is no transitional period. We are aware that economic operators found these very valuable in the first wave. The guidance of the European Accountants' Federation (FEE) issued in 1996/97 was found useful by some, albeit also rather dated³². The sorts of area where there are common issues for all countries and operators irrespective of national requirements are spreadsheets and conversion of historic data.

No interviewee was aware of the euro material/sites archived by the European Commission in 2002. We note that the existence of this archive would merit being better publicised.

³² Eurostat guidance from 1998/1999, which was still available, had also not been updated in the light of what was actually done.

The way in which information was accessed appears to have been serendipitous in general, with each entity looking for what might be relevant for its own circumstances.

There was consensus about the fact that Slovenia had changed currency in the recent past was only of psychological value, in part because the exchange dinars for tolar was at the rate of one-to-one and in part because systems have moved on. There were, for example, hardly any ATMs in Slovenia at the time the tolar was introduced in 1992.

For communication materials internally and with customers, interviewees had drawn heavily on material from the Bank of Slovenia, the Government Communication Office, the European Commission and the European Central Bank. Very few had developed their own apart from specialist materials on procedures and articles in in-house magazines.

The European Commission publication 'Fit for the euro' was cited as being useful as an introduction for SMEs, though the translation into Slovenian was available only 'just in time'. The overwhelming view was that it had been a very useful publication, but some interviewees felt it lacked detail.

7.3.2. THE EURO PROJECT

All interviewees stressed that achieving a successful changeover in business, and across government and the state-owned enterprises, had been the result of careful preparation and attention to detail across all areas of the business - human resources, sales - whether retail or wholesale, marketing, logistics, and finance and accounting. Moreover, while the bulk of the work was in IT, they also stressed the importance of understanding the business drivers in order to adopt appropriate solutions.

The nature of the preparation differed. Small enterprises essentially rely on their accountants and software providers for compliance with any new regulation, and are price-takers based on supplier prices or the prices of their larger competitors.

Large enterprises had dedicated project teams. These project teams were set up as early as 2004 in the case of large banks and as late as mid-2006 in the case of some larger companies. However, where project teams were set up only at this point, that normally followed a period of impact assessment of several months.

Interviewees frequently commented on:

- the initial difficulty of, but the importance of, getting senior management to understand the complexity and scope of the euro project.
- the importance of meeting milestones, incorporating performance targets, and drilling into IT project teams the fact that this is one IT project which cannot overrun.

Industry associations and regulators also had project teams to act as intermediaries in relations with the Changeover Board and on issues to be included in the Euro law and other legislation. These often also started work in 2004. The importance of a clear division of responsibility between the regulators and the associations was stressed in some interviews. Generally speaking, the associations found that their project/co-ordination teams needed to meet monthly. Some met more frequently. The same was true of project teams in banks and corporate entities.

Broadly speaking, the periods taken - or with hindsight recommended - for different types of entity were:

- associations and regulators - three years;
- banks - two to three years, but two years is an exception;

- insurance companies and other financial institutions - two years;
- government departments - two years, of which as much as one year is impact assessment;
- local authorities - one year;
- large business entities - nine to eighteen months;
- SMEs - three months.

There were in all cases instances of less time being taken, but the consensus view was that organisations were or would have been very stretched where this was the case. In one instance where a bank was relatively late in starting because senior management had underestimated the size of the task, this created a major internal hiccup because the IT changeover had not been included in the 'time' budget for 2006 of the external part of the organisation which supplies that service.

In no cases was it considered that a transitional period would have simplified the changeover. On the contrary, the additional cost and complexity involved in converting systems, running parallel currencies, and then converting systems again were frequently stressed. Combining the conversion with introduction of the cash was not seen as an issue – indeed it was often handled by completely different arms of the business. Even for larger companies or economies, interviewees believed that the issue was good preparation not a transitional period.³³

7.3.3. PRIORITISING

Even where plenty of time was left for preparation, other major projects - internal and external - had to be set aside. This was true in both the public and private sectors. The examples varied by type of entity, but included Basel II.

Interviewees told us that some financial institutions struggled to implement International Accounting Standards (IAS) at the same time as introducing the euro (though on the whole that does not appear to have been an issue, and some interviewees felt IAS was actually more complex). We were also told that some financial entities were challenged by implementing ECB reporting requirements at the same time as introducing the euro.

Examples of projects which interviewees felt it would be impossible to combine with introduction of the euro included SEPA, TARGET2 and TARGET Securities, Solvency 2 and MIFID. We note that the British Bankers' Association/APACS report 'The UK Banking Industry Outline Euro Blueprint' (Version 1) listed the introduction of chip-based credit cards with the associated use of 'PIN' numbers as a similar issue.

Several interviewees also told us that there was an unwritten understanding with the government that no major tax changes would be introduced during the second half of 2006.

7.3.4. CONVERTING INFORMATION SYSTEMS

Introduction of the euro was generally regarded as a necessary business evil and as an IT (and where relevant, a cash-handling) project, not as one which could offer strategic or commercial advantage -

³³ A transitional period does not have to be three years as it was in the first wave, when time was needed to mint coins, but momentum was lost in the case of company projects. However, the comments do not apply to a transitional period of a specific length, but to any transitional period.

though the benefits of sharing a currency with major trading partners was specifically acknowledged by some interviewees. Expenditures on the project varied considerably in relation to the total size of the company (see Box).

There is no hard-and-fast rule as to whether the IT aspects of the project were more difficult when an entity was using software developed in-house and its own IT staff, or when it relied on externally supplied software and external suppliers. Overall, however, it appears that the greater the reliance on external elements, the more likely it was that the project would come up against a shortage of human resources to complete the project. We note that the ratio of in-house systems to bought-in systems is thought to be higher in Slovenia than in a number of other potential euro-area countries and that this has implications on resources from external suppliers.

The importance of prior testing and of completing testing early was almost universally stressed and complied with at large entities, with a minimum of three test runs, and often as many as five. The banks completed their internal testing at end-June 2006. They then tested interfaces with the clearing and settlements agency, the stock exchange, the central bank, RTGS+, the card processing centres and the tax office. This process was completed in mid-November. Other entities generally also aimed to complete their testing by a similar date.

We note that it is important to be aware that enterprise resource systems (ERPs) are not homogenous, i.e. just because a company has an ERP from a major international group, and that group's ERP was adapted to handle euro introduction in the first-wave countries, that does not necessarily mean that every problem related to the changeover in another country is solved in advance. Versions vary, add-ons vary, and what is suited the first wave may not be suitable for subsequent entrants.

For example, one major company had to find a local supplier for a workaround in relation to the value adjustments to fixed assets as the major ERP system they used would not accommodate this. More than one found that their ERP or other external system would only convert historic data at the official conversion rate, when the Bank of Slovenia mid-rate was needed for accounting or other analytical purposes³⁴.

We note that there was no external system of certification of the euro-compliance of software, e.g. compliance with rules on not using inverse exchange rates and proper application of the rounding rules. Experts in the field believe that there may be non-compliant software in use despite the work of the Chamber of Commerce and Industry, in particular, to disseminate information on what constitutes compliance. We have empirical evidence to support the view that there may be residual problems in this area.

Moreover, while none of those we interviewed had experienced significant problems with their own data reconciliation at the time of the changeover, but one large company was experiencing reconciliation problems with SME suppliers early in 2007 and felt that they had been unprepared for the euro.

Even though working groups were set up within the Changeover Board in 2005 on IT issues, representatives of the industry nevertheless felt insufficient attention had been paid to the impact on IT systems of changeover decisions.

³⁴ The minimum requirement for conversion is opening and closing balances. However, many companies need accurate comparisons with earlier years for management information systems. Applying the conversion rate to figures from 2002 will produce a distortion of nearly 10%. Some companies have opted nevertheless to do that for simplicity's sake, but for a number of others finding a solution has been a major issue.

Facts and figures

The IT dimension of the euro project at a large manufacturing company

592,650,146 records; 26,900 tables

Data conversion time - 2 days 18 hours - 4 hours preparation

Of which:

Conversion 2 days, 5 hours, 5 minutes

Getting system back up 8 hours

Project team: 80 people involved (nearly 11,000 employees in total)

Some implications for a major manufacturing company:

Cost of back-up server to archive tolar data: €50,000 for three-to-four years

250 person-days of IT work + 90 days of external advisers

Time taken for key tasks at a major insurance company

Redefine price lists for 2007 - two months, involving 50 price lists

Number of circulars to be checked and adapted - 300

Number of activities in euro changeover project plan of a small bank

2,200

Ratio of staff involved in the euro changeover at a large bank

47% (including those on standby)

Impact of working capital requirements of a parking meter operator

Doubling of the working capital requirements because of the higher value of each individual coin

Some basics in conversion of an information system

- Change the currency code associated with the country
- Add decimals where there are no decimals (an issue in Slovenia despite the fact that the stotin was nominally still in use)
- Ensure it is possible to round amounts to the nearest euro (not the nearest '000)
- Change the currency notation for foreign currencies (notably the US dollar) from certain to uncertain
- Change the exchange rate automatically imported each day from the Bank of Slovenia rate to the ECB reference rate
- Introduce support for the new type of payment order.

The devil is in the detail

Several interviewees stressed the importance of dealing with low-value items when moving from such a granular currency as the tolar where the lowest unit - one stotin - was worth €0.004173, i.e. pricing to several decimal places or repricing in batches items which would have an extremely low value when converted individually. One retailer had difficulty in raising SME suppliers' awareness of this in time and stopped selling those items until suppliers had adjusted their prices.

For example, a washer or button previously costing 10 tolar was worth €0.04173 (to six significant figures). While it is feasible for petrol companies to price to the third decimal point and utilities to price units even to the fourth decimal point, or for the goods to be priced this way at wholesale level, it is not possible at the point of retail sale. Since rounding down would mean too much of a loss to the supplier and rounding up would be excessive, the answer is to re-package in batches of ten, twenty, fifty or one hundred as appropriate - but not all companies immediately recognised this.

7.3.5. THE IMPORTANCE OF THE RIGHT TIMING FOR LEGISLATION

Interviewees did not feel that the lack of certainty about the eventual entry date hampered their preparation. They appear to have shared the government's conviction that Slovenia was on a direct course to euro introduction. However, a significant number of interviewees felt that national primary and secondary legislation, notably the Euro Law and regulations/guidance on tax and accounting issues, should have been issued earlier. General accounting principles were available in mid-2006, which some interviewees felt was already late, but this did not resolve a number of issues, e.g. how to account for small amounts created by rounding, or VAT on units so small that the VAT came out at €0.00 – issues which have been resolved in the meantime.

A decision announced in January 2007 that transactions with EU countries and other countries have to be reported separately for 2006 was too late to include in automation of systems, IT experts told us, and would require manual separation.

7.4. Timeliness and smooth changeover of the cash-operated industry

Interviewees had no criticisms of the timeliness and smooth changeover of the cash-operated industry, e.g. parking meters (see Box), vending machines (see Box), and parts of the gaming industry. The general public appears to have been tolerant of the fact that it took the whole of the dual circulation period to complete the changeover of vending machines³⁵.

The issues in relation to this industry were criticisms of part of these industries for using the introduction of the euro as an opportunity to increase prices. Some parts of the industry itself felt that there had not been sufficient understanding on the part of the authorities or consumer organisations of the complexities for them of the changeover.

Conversion of parking meters in a major city

Preparation for conversion of parking meters in a major city started at the beginning of 2006, but recognition of the issues dated back to 2004, when new parking meters were being purchased, and this city had the foresight to purchase parking meters which could be upgraded.

The changeover took three days using existing staff, but with overtime. The changeover required a physical changeover of each meter. They are networked, but not to the extent of allowing software upgrades. The changeover would have been facilitated if it had been possible to get samples of the Slovenian coins prior to December 15th 2006.

The changeover meant a software upgrade for coin recognition as well as a hardware change for the payment module. The changeover from the SIT to the euro has had the advantage that it has been possible to drop the use of banknotes in parking meters - with benefits for reliability.

³⁵ An exemption from dual circulation for the vending machine industry was incorporated in the Euro law.

The changeover at a vending machine operator

Company A., which operates 1,200 beverage and goods vending machines from 20 different manufacturers and has around 10% of the market, began thinking about the implications of introduction of the euro in 2004 with a decision to reduce the number of machines and machine-set suppliers. This company has since 2005 only bought vending machines from one manufacturer and decreased significantly the number of suppliers of machine sets (i.e. the storage and delivery mechanism, the payment module and the software for note and coin recognition.)

All the machines operated by this company took coins, banknotes and credit keys (100,000 in circulation) and returned change both before and after the introduction of the euro. Some machines also allow payment by mobile phone, but this is not typical. Vending machines currently accept coins in the denominations of €0.05, €0.10, €0.20, €0.50, €1 and €2. They return coins of €0.10, €0.220, €0.50 and €1.

The adoption of the euro required software and hardware changes. Software included banknote and coin recognition/verification (scans, weight and size measurements, material tests) and credit key balance translation. Hardware included return change tubes replacement and some banknote/coin reader units.

Concrete planning for the introduction of the euro started in January 2006. This company, which believes its experience is typical for this industry, drew up a detailed plan of changeover requirements and implementation. Orders were placed with the bank for euro coins in May 2006. The physical changeover including hardware changes and software updates started December 15th and ended January 13th.

As soon as coins were available on December 15th, the company sent the coins to suppliers in Germany. It then required ten days to deliver the first version of coin recognition software which did not function very well. It took three versions to get to an acceptable level and in some cases, machines had to be visited three times for the update. As of April 2007, the final version of the software had only just been received and final upgrades were being made.

The physical changeover was managed by internal resources. None of the machines are on-line so software and hardware changes had to be done on site. The company employs 30 people, of whom 25 worked actively on the changeover. The newer machines could be programmed to accept both tolar and euro and give change in euro during the dual circulation period. The change was given at the rate of €1=240, rather than €1=239.64.

The total cost of the software and hardware upgrades was €200,000, or 10% of turnover. This excludes the opportunity cost of the labour. In the first quarter of 2007, there was a significant loss of revenue estimated at around €75,000 due to people not having the appropriate currency. Due to the higher value of the coins, working capital requirements also increased by approximately €30,000 (three times as much as in tolar).

Cash is transferred from machines to headquarters by maintenance personnel (people doing technical maintenance or filling the machines). There, the cash is sorted, counted, and then transported by a security company from their headquarters to the bank. In tolar times, 60% of transactions were made using banknotes, 40% using coins. Now, 98% are made using coins. This has improved the accuracy of counting and made it a lot easier to count. Before, the company employed two full time counters and they were always up to three days behind. Now, after investing in an additional coin sorter/counter, all the previous day's money is sorted and counted by 1pm. In addition to the one-off advantage in value-dating of the deposit, the task requires one less person (representing a €20,000 annual saving).

The company expects revenue to reach pre-euro levels quickly and has seen its first price increase for a cup of coffee in 13 years. This should mean 5-8% higher revenues. The price of coffee sold through a vending machine had remained unchanged at 50 tolar for thirteen years. Bearing in mind that vending machines do not take one or two cent coins, the options were €0.20 (just under 48 tolar) or €0.25 (59.91 tolar) and the company went the latter route.

A key issue was the non-availability of Slovenian coins in advance: physical changeover was made difficult because the software for Slovenian euro coins could not be prepared ahead of time as coins were only available to the company (which also has a manufacturing subsidiary which needed samples) on December 15th. However, we are aware that as the Mint of Finland did make testing facilities available to major European players.

7.5. Timeliness and smoothness of the conversion of accounts and of the changeover of non-cash means of payment

7.5.1. CONVERSION OF ACCOUNTS

Some 2.3 million accounts held by private persons and legal entities were converted into euro at the beginning of the New Year. There is no evidence of any significant problems or that the changeover was anything but smooth overall.

It was a particular characteristic of Slovenia that many citizens already had a euro account so that merging euro and tolar accounts was a significant element in the changeover. This made the sequencing of the merging of the two accounts and the value dating of any withdrawals from the tolar account via ATMs during the changeover period of particularly critical importance, in order to avoid situations where SIT1,000 withdrawn on December 31st were not debited as €1,000 on January 1st, or customers assumed their euro and tolar accounts had been merged by midnight on December 31st and withdrew money accordingly when in fact conversion was still under way.

Interviewees stressed the role played in the oversight of planning and testing, and meticulous monitoring by the banking supervisory arm of the Bank of Slovenia.

7.5.2. NON-CASH MEANS OF PAYMENT

The main non-cash means of payment in Slovenia are bank and credit cards, with payment made via POS terminals, and paper payment orders for giro-type payments. Arrangements were made for tolar cheque acceptance and encashment, but cheques are hardly used.

7.5.2.1. CONVERSION OF POS TERMINALS

The conversion of POS terminals was also identified as a critical success factor³⁶ and also largely went smoothly, helped by a 'bank card pause' on December 31st until 1 a.m. on January 1st. It appears that this was well communicated and did not pose problems for New Year's Eve celebrations ending over that period. This was helped by the fact that many small restaurants and bars still do not accept payment by card.

Conversion of POS terminals was time-consuming for the processing companies, involving visiting each individual terminal, at least in the case of the major processor. The location of the terminals was not always well documented. Consequently, the processor's records could show the terminal to be in one location, while the retailer might actually have plugged it in at another in another city.

³⁶ Fortuitously and possibly fortunately, the Slovenian POS system broke down for three hours on October 31st 2006, thus putting these systems under a particular spotlight.

All terminals at major locations, e.g. supermarkets, department stores etc., were converted when they reopened on January 3rd, but a significant percentage of terminals at small outlets were not converted until subsequently. These retailers used manual machines to register card transactions in the interim.

7.5.2.2. CASH TRANSFER ORDERS (GIRO ORDERS) FOR PAYMENT

New forms for giro payments were introduced from January 1st 2007. However during the month of January, banks were accepting old tolar orders with euro amounts printed over them. This meant that the tolar amount was machine read and the conversion to euro handled manually.

This led to some minor problems:

- incorrect manual entry (e.g. SIT10,000 being owed and €10,000 being paid),
- large customers using data generated by this form of payment for their management accounting not able to obtain data on the manual operations (a problem recognised upfront and accepted as unavoidable);
- customers continuing several months into 2007 to use the old forms for goods purchased prior to January 1st 2007 and being paid for in instalments.

In addition, there were supply bottlenecks for new forms in early 2007 because of underestimation of the level at which users would stock up with the euro-denominated payment orders.

7.6. Cost of the changeover to the private sector

Interviewees were accepting of the costs of their euro projects, either because they felt they had no choice, and sometimes because they saw offsetting benefits. Small businesses, particularly retail business, were less sanguine and felt that the authorities should have provided some form of assistance. Some interviewees did feel that the requirements imposed on banks had been unnecessarily 'gold-plated', with cost implications. The other side of this coin is the argument that the banking sector was the most visible and that maximising the avoidance of risk was critical.

IT was an important component of the project costs at banks and large companies (as much as 90%, though a significant part of this was a human resource cost). There were also software upgrade and hardware costs, the latter because of the need at most large entities either for a separate testing environment and/or the need to archive pre-2007 data.

Apart from the hardware needed by large companies to archive data while testing or going forward and software upgrades across a range of areas, purchases were by cash-handling businesses deciding to buy new cash registers (though this was not compulsory), new cash drawers for cash registers, labelling guns, equipment for detecting counterfeits, and new or extra secure storage. (Storage is not just a case of the volume available to accommodate frontloaded/sub-frontloaded cash, but the change in the ratio of notes to coins, and therefore the type and weight tolerance of the storage.)

Another area of expenditure was additional insurance cover for the extra cash on the premises in December 2006, and for some areas of the cash-in-transit operations not insured by the carriers.

Training costs were low. Staff training was limited to:

- new internal/IT procedures;
- recognition of the security features of the notes and coins, and in some cases, but far from all, actual recognition of the notes and coins;

- timetable for the cash changeover, and associated rules/procedures.

A ‘train-the-trainer’ approach was generally adopted to recognition of security features, with material supplied by the European Central Bank used for the training, and government materials used for providing information on the timetable and rules for the cash changeover.

Few interviewees regarded overtime costs as significant. Some retailers recognised the implicit cost by putting on additional staff, but broadly speaking both cash-handling businesses and customers regarded lengthier queues as a normal part of the changeover process which there was no particular need to address. Performance standards in terms of queuing appear to be unusual in Slovenian businesses. None had any done any research on the impact on queuing ahead of time, or consulted – or been aware of - the work done on this in the first wave, on the additional transaction time during the transitional period, or on the costs of this. In practice, customers' familiarity with the euro, and the fact that many paid in euro from day one, appears to have meant increases in transaction times were minimal.

There was no explicit financial assistance with the cost of the changeover. There are three areas where we identified implicit assistance:

- the Bank of Slovenia acts as the entry point for the Step 2 payments system of the Euro Banking Association (EBA). Generally, each bank is its own entry point, though there are other examples of the central bank playing this role (including Austria and the Netherlands);
- chambers of industry and commerce, and similar organisations were able to fund information and training activities from existing membership fees. Where an organisation is not self-funding in this way (as is, for example, now the case of the Chamber of Commerce and Industry in Slovenia), companies might have to be charged, and that could act as a disincentive to attending information sessions and training courses;
- the availability of information materials from the European Commission and the European Central Bank.

Expenditure on the changeover

There are no comprehensive surveys on expenditure on the changeover in the public and private sector. The following data was collected in the course of our interviews and is based on each organisation's method of measurement. This may not fully incorporate labour costs, particularly where software development was carried out in-house, as was the case for many companies.

A relationship with turnover has been given only where the bulk of the company's turnover is in Slovenia. These figures represent one-off costs. Banks had a ongoing loss of foreign exchange income and some cash-intensive businesses have an ongoing increase in working capital requirements.

On the other hand, the introduction of the euro brought offsetting savings for some companies, in reduced staff requirements (see vending case study above), a reduced cost of cross-border payments (a significant cost item for a small telecoms supplier), and more straightforward sourcing in the euro-area (a major retailer).

A large bank
€20m

1/6 of annual profit
Less than 1% of net banking inc.

A small bank
€2.4 m

Post Office (including Post Office Bank) €5.7 m	2.5% of turnover
Large insurance company €400-450,000	0.4% of turnover
Medium-sized insurance company €245,000 (including human resource costs)	
A large supermarket chain €3m	
Petrol retailer €1m	0.07% of turnover
of which: €800,000 on IT (115 person-days), €200,000 of other costs (anti-counterfeit equipment, stickers for pumps etc.) - excludes cash-handling costs	
Major manufacturing company with retail outlets €300-400,000 (including human resource costs)	
Major manufacturing company €220,000	
Retailing (Chamber of Commerce membership, based on pre-euro survey in 2005) Anticipated cost of dual price display ³⁷ €24 million	0.55% of turnover
Vending machine operator €200,000 (excluding opportunity cost of labour)	10% of turnover
Municipal parking meter operator €1.75 million	43.75% of turnover

7.7. Findings

We conclude that the changeover to the euro in the private sector was successful thanks to:

- careful planning started as much as three years in advance,
- meticulous supervision by regulators,
- comprehensive dissemination of information by associations and regulators;
- careful attention to the complexity of the project,
- systematic testing,
- an unwritten understanding that no major tax changes would be introduced in the six months prior to the introduction of the euro.

³⁷ See Annex 21.

- the priority attached to this project - in some cases at the expense of other major IT-hungry projects.

We note the importance of top management buy-in to the project, and found that obtaining this can be a major initial hurdle.

We note as we did in Chapter 4, that local government has a limited role in Slovenia. The moral suasion that was all that was needed in this case, and that was all that was possible given the degree of local government autonomy in Slovenia, would not necessarily be enough in countries with devolved regional and local government.

The bulk of the work and cost was in the conversion of information systems. This work would have been facilitated if information on dealing with legal, tax and accounting issues had been available earlier, even though it was recognised that the tax authorities had been flexible in their approach to solutions and this had been a major success factor.

The fact that the formal decision on adoption of the euro was not taken until July 2006 appears to have had flow-on impacts in this respect.

We conclude that regulatory information, in particular via regulators and associations, was well disseminated once available, but found that some interviewees in the private sector would have welcomed more systematic availability of information on the experience of others, such as case studies.

It is our assessment that there has been some loss of institutional memory on the complexities of converting information systems (in both the public and private sectors) since 1999/2002.

We believe that the size of Slovenia facilitated co-ordination of project teams and associated working groups, and that this is likely to have facilitated short preparation times. One regulator with a project team of a dozen people estimated that a large country would have needed to involve 15-20 times as many staff in co-ordination. To take another example: there are only 18 companies belonging to the Insurance Industry Association, so that each of those companies sat on the euro working group. A larger country would almost certainly need longer lines of communication, with the result that impact assessment, co-ordination and consensus-building would be more complex, and more time would be needed for preparation.

We encountered less attention to the euro-compliance of software and the risk of fraud in such a major IT exercise than we would have expected from the first wave experience. We believe that the extent of ongoing manual intervention we have identified does not pose a systemic risk, but underlines the complexity of the operation and the need for constant communication prior to the introduction of the euro for careful preparation. We believe this is an area of potential risk for larger entities and countries.

7.8. Recommendations

We recommend that other countries planning to introduce the euro:

- encourage banks and trade associations to set up project teams at least three years in advance;
- encourage public and central government to set up project teams up to three years in advance, depending on the complexity of their IT systems;
- encourage large companies to set up project teams no less than nine months in advance;

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- ensure that software developers and vendors, and accountancy firms (large and small) have all the information they require, given their important role in the changeover of SMEs in particular;
- pay careful attention to the importance of top management buy-in to ensure that the project gets the proper attention at every level of government and within private sector organisations, and maintains momentum;
- take into account that other IT-hungry projects - internal and external - are likely to have to be set aside in order to accommodate the complexity of the changeover of back-office systems required for introduction of the euro;
- consider certification systems to ensure that software is euro-compliant;
- take every possible step to minimise manual workarounds in payments processing and systems;

We recommend that the European Commission:

- publicise more widely the availability of its web archive on information from the ‘first wave’;
- consider whether there is a case for updating some of its Euro Papers, as they are known to have played a valuable role in the ‘first wave’ changeovers, and contained information which was found still to be of use – albeit it was dated in places - at the time of the introduction of the euro in Slovenia.

8. COMMUNICATION

Evaluation theme: Communication on the euro and awareness of the public

Evaluation sub-themes:

- Added value and effectiveness of the public authorities' communication activities on the euro
- Length of the communication campaign: did it start early enough, and when should it finish?
- Level and degree of awareness of the public about the denominations and characteristics of euro banknotes and coins and about the main changeover features
- Coverage of the introduction of the euro in the media and in the political arena
- Public appreciation of the euro

8.1. Introduction

Communication on the euro came from three sources:

- Slovenia – the Bank of Slovenia and the Government of the Republic of Slovenia, and public and private sectors,
- the European Commission (under a Prince Euro partnership agreement),
- the European Central Bank (under a memorandum of understanding).

In addition to the Masterplan for the changeover as such, the Slovenian authorities had a separate communication strategy drawn up by the Bank of Slovenia and Government Communication Office and other partners (the Office of the Prime Minister, the Ministry of Finance, the Ministry of the Economy, the Statistical Office, the Bank Association, the Chamber of Economy and Industry, the Chamber of Crafts and the Slovene Consumers' Association) (Annex 5).

The communication strategy covered the period 2005-2007. It was adopted by the Governing Board of the Bank of Slovenia in May 2005 and by the Government of in June 2005. It was published in June 2005. The major goals were:

- explanation of preparations for the changeover
- assurance of smooth changeover
- building confidence in the new currency.

The communication goals were to:

- **provide information:**
 - the social, economic and political effects of introduction of the euro,
 - the practical consequences on a personal and national level,
 - the preparations for the changeover,
 - the visual appearance of the new currency,
 - how to identify counterfeits.

- **to educate**
 - to increase the level of familiarity with banknotes/coins, security features,
 - the mechanics of the changeover (timing, dual price display, change only being given in euro).
- **to build confidence in the new currency and fair rounding**
 - to raise awareness of consumers' rights in the event of unjustified price increases, or unfair transactions/conversions.

The strategy spelled out the contributions of the individual partners to the joint activities at a national level, notably:

- a common visual graphic identity and slogan 'Evro - za vse nas' (Euro - for us all)
- a common web site www.evro.si;
- informational posters & some publications (three major publications were sent to all households)
- round-table discussions and presentations;
- the open telephone line;
- an advertising campaign,
- calculators for all households;
- preparation of promotional materials.

Responsibility for different target publics was assigned to different organizations. The target publics were the Slovene public-at-large, professional communities, the mass media (as a channel to other publics), young people, people with special needs, minorities and national communities, people beyond easy reach (e.g. rural population, pensioners, housewives, hospital patients, prisoners, less educated persons), aliens, foreign tourists, civil society and other opinion leaders.

The total budget was some €2m, excluding the contribution of printed materials from the European Central Bank. Of the budget, around 40% came from the Bank of Slovenia, just under 40% came from the European Commission, and the remainder from central government.

In implementing its strategy, the communication team was able to draw on the experience of the Netherlands under a twinning arrangement with the Dutch Ministry of Finance supported by the PRINCE programme of the European Commission.³⁸

The communication campaign was divided into four stages:

1. Preparatory stage (June 2005 – March 2006):

- provision of information for the public concerning the beginning of dual display of prices, preparations for launching the campaign, including setting up a common website www.evro.si and launch of the visual identity for the campaign - 'Evro - za vse nas';

2. Introductory stage (March 2006 –September 2006):

- March 1, 2006 – official start of the campaign; emphasis on informative and educational activities;

3. Main stage (September 2006 –mid January 2007):

- focus on provision of the practical information on the changeover scenario, supported by the strong advertising campaign

³⁸ This was a trilateral 'twinning' arrangement, which also included Lithuania.

4. Follow-up stage (mid January 2007 –June 2007):

- practical information and advice on the changeover.

Consistent with the structure of the Changeover Board, the members of the communication sub-committee acted as channels to particular groups in co-ordinating their communication activity, e.g. the Ministry of Finance for the public sector, the Ministry of the Economy for the state-owned enterprises, the Chambers of Commerce and Craft for the private sector - large and small, and Bank of Slovenia and the Banking Association for the banking sector, etc.

These associations and their members primarily used print publications and their websites (or www.euro.si) to disseminate information to their target audiences. Print played an important role in the small-business sector, in particular, as many small businesses do not have Internet access, or only have dial-up access. Banks in many cases supplemented these channels with promotional items, including in some cases items for special groups, such as coin recognition aids for the visually impaired and blind.

A pro-active press communication strategy was part of the campaign both at the level of the Bank of Slovenia and the government of Slovenia, and of a number of other players on the Changeover Board, including the Statistical Office (on price trends), the Consumers' Association and the Chamber of Commerce and Industry. A number of individual private sector groups, notably in the banking sector, also had a proactive press strategy.

In the course of the national campaign, printed materials were produced in Slovene, English and in the languages of the minorities (Hungarian, Italian), and ethnic groups that live in Slovenia (two Roma dialects, Albanian, Bosniak, Croat, Macedonian, Serbian). The website www.evro.si (www.euro.si) was maintained in Slovene and in English. It was launched in Slovene in February 2006 and the English version went on line in April 2006. English was used to accommodate the interest of other countries, the international media, the academic community and foreigners living in Slovenia.

Material and communication efforts targeting special groups included material in large type, voice version and Braille, and 70,000 copies of a specially simplified brochure explaining the euro for the intellectually challenged. Aids to note recognition for the visually impaired and the blind were supplied as part of the official Bank of Slovenia/Government communication campaign. Other entities supplied aids for coin recognition.

On 8 November 2005, Slovenia and the European Commission concluded a Partnership Agreement to support Slovenia's information and communication activities on the euro. In the first stage (June 2005-March 2006) the Partnership agreement co-financed some of the major activities, such as the national euro website, the toll free phone line, an informational publication ('Euro is coming') and a high-level conference on the euro and EMU.

In a second phase (September 2006-January 2007) the support focused on advertising in the national and regional media. TV and radio spots, print advertisements, web banners, advertising clips in cinemas and online games. The Commission also financed the conduct of opinion polls targeting the general public.

The ECB supported the national campaign with several public information leaflets, posters and publications for the public-at-large and cashiers. One of the publications was mailed to all households, together with the calculator provided by the Bank of Slovenia. The materials provided by the ECB focused, in particular, on notes and coins - including the coins of all euro-area states, and on the security features. The ECB provided targeted materials for training in the detection of counterfeits.

Considerable educational activity was carried out in the first ten months of 2006 and the mailing of a brochure to all households. Visits were made to old peoples' homes, to schools (more than 800), to municipalities (to raise their awareness of the need to reach the elderly.) Presentations were made in

libraries, to groups of pensioners, and in shopping centres most likely to be used by older people and families, and at fairs most likely to reach target groups.

In the last four months of 2006 and the first two weeks of 2007, the emphasis of the campaign shifted to advertising, including via radio and TV, and to the awareness of the characteristics of notes and coins, and of the security features; information on the timing and special features of the changeover, and specific messages for the Slovenian context.

In the advertising campaign, there was a particular focus on the importance of not regarding euro coins as 'disposable' in the way that to some extent tolar coins were³⁹.

The main messages of the campaign were;

- the new coins are not small change, but have considerable value,
- the new currency brings new values that will take some getting used to
- the changeover does not mean higher prices, but that people should check prices, and the change returned, and pay attention to unfair rounding or calculation of amounts.
- tolar should be exchanged at the bank.

The communication campaign continued in the first six months of 2007 with basic practical advice and answering queries. The euro information campaign as such then comes to an end, but general communication on the euro and economic and monetary union will continue.

8.2. Added value and effectiveness of the public authorities' communication activities on the euro

There was high awareness among interviewees of the messages of the campaign. Interviewees felt that the public authorities' campaign had been highly effective, and the polls carried out under the auspices of the national campaign bore this out.

Given the high level of support for euro entry, the familiarity of many Slovenes with the euro, and the role which interviewees perceived the media had played in raising awareness in the public at large, it was felt to have been appropriate to target those least likely to have come across the euro or most likely to have difficulty in adapting.

Materials produced by the European Commission ('Fit for Euro'), the European Central Bank (posters showing the notes and coins of all euro-area countries), and joint Slovene publications (I) 'The euro is coming' and (II) 'The euro on your Doorstep', produced by Bank of Slovenia and Government of Slovenia were the paper publications most cited by interviewees as having been useful. Awareness of the Commission's Standards of Good Practice and surveys was low, except among institutional interviewees in direct contact with the Commission.

One area where some interviewees nevertheless felt the campaign could have done better was in communicating good pricing behaviour and providing information on the fair pricing commitments -

³⁹ This appears to have been effective if reports early in 2007 of waiters being upset because no one was leaving tips any more were correct.

though these were adopted very late in terms of mounting an effective communications campaign - and in communicating that prices had been more stable than people's perceptions. The Statistical Office was proactive in this, but has limited resources and must tread a careful path in order to ensure that it continues to be seen as neutral.

Some - and not just those in the relevant industries - also felt it could have done more to explain some justifiable exceptions to the rules on dual circulation and/or a rapid changeover, i.e. taxis, vending machines and parking meters.

Some interviewees also felt that more could have been done to get across the message that price increases were a worthwhile cost in the interests of becoming part of a strong currency area.

Where interviewed, target groups appeared satisfied with the information they had received, with the proviso that the comment was made that TV advertising/news should have been accompanied by subtitles or sign language for the hearing-impaired.

The calculators were felt to have been a useful communication/transparency exercise, but a number of interviewees felt they could have been more user-friendly for the groups which most needed them, i.e. simpler instructions, instructions on the back of the calculator rather than in fine print on a separate leaflet, and labelling of the keys on the calculator in Slovenian rather than English.

There were also some technical problems with accurately delivering one calculator per household. The definition of one per mailbox proved to be an imperfect proxy, leading to a certain number of complaints and the need for the Bank of Slovenia to meet individual requests subsequently.

These comments should not be allowed to detract, however, from the overall level of positive comments received on the communication campaign led by Bank of Slovenia and the government of Slovenia, which was felt to have clearly added value.

8.3. Length of the communication campaign: did it start early enough, and when should it finish?

The timing of the campaign, which was concentrated in the last quarter of 2006, was felt to have been appropriate, though several interviewees felt it was a disadvantage that it had not been possible to use photos with the national face of the coins at an earlier stage.

Interviewees also pointed out that the timing of the campaign might not have been appropriate for a country waiting to launch a campaign in a country where it was necessary to build more support for euro introduction. Taking the final decision does not necessarily preclude launching the campaign, but these interviewees nevertheless felt there was likely to be a link.

A number of interviewees had attended the conference organised by the European Commission in March 2006. They felt that this had been good timing in terms of raising awareness of the issues amongst a broader public. It also broadly coincided with the launch of the national campaign and introduction of compulsory dual price display which increased the impact because of the role that legislation played in raising awareness (see Chapter 6).

8.4. Level and degree of awareness of the public about the denominations and characteristics of euro banknotes and coins and about the main changeover features

There is no evidence from interviews of the public not being fully aware of the denominations and characteristics of the banknotes and coins, or of the main changeover features. This was the combined result of the national communication campaign, the activity of the media and the existing high degree of euro awareness in the economy. It is not possible to unbundle the role of the different elements.

8.5. Coverage of the introduction of the euro in the media and in the political arena

Coverage in the media was extensive, and was based on information from key sources rather than debate in the political arena, since there was political consensus on the introduction of the euro, and the topic was not one for political debate.

The media interviewed cited the Bank of Slovenia, the Government Communications Office, the Statistical Office, the Consumers' Association, the Chamber of Commerce and Industry, the European Commission, and the European Central Bank as sources of information (not necessarily in that order). These include the trips to Brussels, Frankfurt and Helsinki organised by the European institutions, the government of Slovenia and the Bank of Slovenia. The joint website, www.evro.si was felt to contain all the information that was needed for the media.

The topics perceived by the media of being of the most interest to their audience were:

- dual price display (e.g. why is it important)
- the final conversion rate
- the features of the notes and coins
- prices, and the possibility of increases, and actual price behaviour
- the new role of the Bank of Slovenia
- the success of the changeover, including account conversion
- the issue of whether shops should/could accept high-denomination notes⁴⁰.

The media started from the assumption (borne out by surveys) that their audience were already well informed about the introduction of the euro even before the public information campaign began.

Interest in euro-related issues quickly tapered off. One journalist pointed out the absence of articles on the 'First 100 days of the euro'. He attributed this to a perception that the euro (including the impact on prices) was no longer newsworthy.

8.6. Public appreciation of the euro

As reflected in the media and surveys, and our own interviews, the general public was well satisfied with the way the changeover went.

8.7. Findings

We conclude that the joint communication campaign was comprehensive, effective and clearly added value, particularly in targeting those relatively few target groups in Slovenia which were not already familiar with the euro and the timing for introduction of the euro from their own personal and/or employment experience and from the media.

We also believe that the European Central Bank and the European Commission played important supporting roles, particularly the former in relation to information material on notes and coins.

The conference organised by the European Commission played significant role in awareness-raising at a crucial period of the campaign, and material from the European Commission played a role in the preparation of SMEs. In order to facilitate information-gathering on the changeover developments, the Commission also set up a special Slovenia changeover website collecting relevant background as well as updated new information like the daily surveys and press releases (for further information, see: http://ec.europa.eu/economy_finance/euro/slovenia/main_en.htm).

⁴⁰ See Chapter 5.

However, there is a demand for more detailed practical information for business. The importance of the availability of that information in Slovenian was also stressed.

By comparison with our knowledge of the first-wave countries, enterprises did not see this as an opportunity to profile themselves for their best practice in terms of the introduction of the euro or to use the additional contact with their customers that came from responding to their questions as an opportunity to promote new products, e.g. additional financial services.

Similarly government departments, private and public sector enterprises did not see the introduction of the euro either as requiring intensive information campaigns on their part above and beyond their participation in the national campaign and - in most cases, but by no means all - one or two brochures or leaflets for their customers, and a few promotional items, including some for 'vulnerable' groups. This was appropriate for the Slovene context of high familiarity with the euro and high support for the euro.

8.8. Recommendations

We recommend that other countries considering adopting the euro take note that:

- the 'Slovenia Inc.' approach of a national campaign with a single visual identity and clear division of tasks among key players worked well;
- the timing and targeting of the effective Slovene campaign were geared to a country with a high level of existing familiarity and support with the euro.