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

Eighth Report on the practical preparations for the future enlargement of the euro area

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1. INTRODUCTION

Following the Council decision of 8 July 2008 that Slovakia fulfils the necessary conditions for the adoption of the euro¹, the euro area will have 16 members on 1 January 2009. The Slovak koruna will be converted into the euro at the rate of 30.1260.

The practical preparations for the changeover have entered the final phase. This report addresses in particular the preparations for the introduction of euro cash into the economy, the preparatory activities of businesses, the preparations of public administration, the measures put in place for protecting consumers in the changeover period, the communication campaign and the state of public opinion on the euro.

The attached Commission Staff Working Document provides for details on the preparations for the introduction of the euro in the other EU countries that have not yet adopted it and do not have a legal opt-out.

2. STATE OF PREPARATIONS IN SLOVAKIA

2.1. Preparations for the cash changeover

According to the calculations of the National Bank of Slovakia (NBS), some 188 million **euro banknotes** and 500 million **euro coins** will be needed to replace the Slovak koruna cash in circulation and the cash stocks of the NBS. The banknotes were borrowed from the Austrian National Bank. The euro coins bearing Slovak national sides are minted by the Slovak Mint of Kremnica. Some 170 million coins were minted by 17 October. The remaining coins needed for circulation and some 150 million coins needed for the NBS stocks should be minted until the end of this year. The Mint of Kremnica prepares 204 500 Slovak euro coins sets in three sorts of packaging for coin collectors. The NBS has already launched the destruction of Slovak koruna cash from its stocks in order to free storage capacity for euro cash. The Slovak euro coins have been successfully tested by coin testing machines producers, producers of coin validators for vending machines and users of vending machines from Slovakia and other European and non-European countries. The **frontloading** of commercial banks started on 6 September 2008 for euro coins and a month later for euro banknotes. The NBS signed the frontloading contracts with 16 commercial banks. The coins are being distributed to commercial banks from a remote branch of the NBS created for this purpose in the Mint of Kremnica. This distribution system helps creating sufficient storage space for euro banknotes

¹ Council decision (2008/608/EC) of 8 July 2008 in accordance with Article 122(2) of the Treaty on the adoption by Slovakia of the single currency on 1 January 2009

and coins which are distributed directly from the NBS headquarters and its seven regional branches. The state police escorts guarantee high security of all euro cash transports.

The **sub-frontloading** started at the beginning of November 2008. As of 15 November, the banks supplied with euro cash some 1036 businesses. The total number of businesses which have manifested an interest in being supplied with euro cash before €day increased from 12 000 in March to 13 300 in October 2008. Almost 23% of frontloaded banknotes and 66% of frontloaded coins will be distributed by commercial banks to their clients. Slovak banks do not envisage using the new simplified ECB rules for sub-frontloading adopted in June 2008².

Citizens will have the opportunity to buy **euro coin mini-kits**, starting from December 2008. 1.2 million mini-kits will be on sale in banks, in the NBS and in the Slovak Post offices for 500 SKK (approximately €16.60). Packed in plastic bags, the mini-kits will contain a mix of 45 pieces of all Slovak euro coins' denominations. The mini-kits are very helpful in getting people acquainted with their new coins before €day. It is likely that the mini-kits will be also purchased by small businesses which do not plan to be sub-frontloaded via a contract with their bank (by purchasing several pieces of mini-kits, the small retailers can easily obtain euro cash for giving change in the first days of January). The sales of mini-kits should therefore be carefully monitored by the NBS as the planned quantities could prove to be insufficient.

Some commercial banks in Slovakia envisage providing for exchanges of the legacy currency against euro at the official conversion rate without fees in the last weeks of the year. The exchanges of hoarded cash should thus be spread over a longer period of time and the banks should be able to better manage the extra workload. Many banks also offer special products to attract new clients or motivate their actual clients to deposit the cash they keep at home on a bank account. The banks will convert all bank accounts into euro for free at €day.

To facilitate the changeover, the NBS and commercial banks will be open for cash exchanges and withdrawals on 1 January (which is normally a banking holiday) as well as on the weekend days of 3-4 January 2009. The commercial banks plan to increase the number of staff in contact with the public with employees coming from their back-offices and non-cash sections of the branches. The banks' staff members were trained to handle euro cash and provide information on the euro. In order to make the changeover smooth and efficient, the banks should communicate with their clients on the organisation of the changeover and services which they offer. In the first days of January, the banks should be ready to adjust their capacities to the number of clients visiting the branches (an increase of up to 50% of the number of people visiting banks' premises should be expected).

All approximately 2200 **ATMs** in Slovakia should dispense only euro banknotes (mainly €10 and €20) as of 1 January. A part of the ATMs will be switched to the euro remotely while the others will have to be adapted manually. All 30 000 point of sales terminals should be able to work in euro as of €day. As Slovak citizens use the cards mostly for withdrawing cash from ATMs, they are being encouraged by the authorities and banks to increase their use for payments in the changeover period.

In order **to protect the euro against counterfeiting**, Slovakia established a National Central Office at the Ministry of Interior as well as a national analysis centre for banknotes and a coin

² ECB Guideline (ECB/2008/4) of 19 June 2008 amending Guideline ECB/2006/9 on certain preparations for the euro cash changeover and on frontloading and sub-frontloading of euro banknotes and coins outside the euro area

national analysis centre, both situated within the NBS. The NBS, commercial banks, big enterprises and cash handling institutions have ordered the necessary equipment to control the authenticity of euro banknotes and they are training cash handling employees. The information brochures distributed to general public in the framework of the national communication campaign also provide information on the security features of euro cash.

- **The financial sector in Slovakia is well advanced with the preparations for the changeover. The production and distribution of euro coins should continue swiftly to meet the target dates for frontloading and sub-frontloading;**
- **The sales of mini-kits should be carefully monitored and additional supplies should be considered;**
- **The banks are doing extensive preparations for the changeover: they should make sure that both their corporate and private clients are informed about the products and services they offer and are aware of the schedule of changeover operations. They should also prepare themselves carefully for a considerable extra attendance of the public in their branches in the first days of January;**

2.2. Preparations of businesses

The Flash Eurobarometer survey conducted among Slovak entrepreneurs in June 2008³ revealed that a majority of businesses started to prepare for the changeover well in advance. Some 80% of enterprises launched the practical preparation more than 6 months before €day. At the same time, a high proportion of enterprises declared to be in need of basic information about the changeover. More than 70% of enterprises wanted to get better informed about the conversion rules, including the rules for rounding of prices and almost 58% desired to obtain more information about the dual display of prices. The lack of information translated into a relatively high rate of mistakes discovered during the controls of application of the changeover rules made by the Slovak Trade Inspection (STI). In the first two weeks of the dual display of prices period (24 August – 7 September) there were shortcomings identified in some 45% of controlled shops and service providers' outlets (i.e. the conversion rate was not displayed or was incorrect, the price in euro was missing or was calculated/rounded wrongly etc.). With the changeover day approaching, the entrepreneurs started to look more actively for information and the results of the controls were improving. As of mid-October 2008, 74% of the 8200 businesses controlled by the STI applied the changeover rules correctly. Apart from controlling, the inspectors of the STI explain the rules of the changeover and distribute the information materials. A significant part of identified shortcomings is therefore corrected at the moment of the control itself. Special attention is paid to SMEs and businesses in the remote areas.

The National Agency for the Development of Small and Medium Sized Enterprises (NADSME) has noticed, while organising information seminars on the euro, an increase in the interest of businesses. Its autumn round of seminars attracted much more interest than the June 2008 round. The seminars organised in 18 Slovak towns aimed at providing all necessary information on the changeover. Entrepreneurs can also find information on the web sites of NADSME and the Ministry of Economy, in the dedicated part of the national euro web site www.euromena.sk and in the brochures of NADSME and the NBS.

³ Flash Eurobarometer 240, June 2008

Some businesses which were waiting with the preparations until the very last moment may experience problems with adaptations of IT systems and cash registers. Many IT service companies have announced that they are fully booked until the end of the year. According to Slovak changeover rules, the costs of the changeover can not be included into prices.

The retailers should be giving change exclusively in euro as of €day. Appropriate measures should therefore be put in place with a view to easing the work of cashiers and limiting waiting times at the tills (e.g. get cashiers acquainted with the new currency and provide them with separate boxes for koruna cash and euro cash, open information desks in large retail shops to answer customers' questions, hiring temporary staff for packing products into bags in the supermarkets etc.). The retailers should foresee sufficient storage capacities for retrieving koruna cash and plan cash transports to banks.

- **The authorities should combine their efforts for ensuring that all businesses are sufficiently informed about the changeover and get appropriate support;**
- **The progress of preparations of SMEs should be regularly monitored. The newly planned survey on SME preparations will help getting a better view of the situation.**

2.3. Preparations of public administration

On 24 September 2008 the Government of Slovakia approved the third update of the National Plan for the Introduction of the Euro, integrating the date of abrogation of Slovakia's derogation and the irrevocably fixed conversion rate.

The adaptation of legal acts required by the changeover follows the schedule fixed by the National Plan. A majority of official forms have already been adapted to the euro and published on the web sites or in the bulletins of the responsible institutions. Administrative bodies started to display all financial amounts in both Slovak koruna and euro at the starting day of the mandatory dual display (24 August). All sums to be paid to citizens were rounded up while all fees and charges were rounded down. All pensioners received a calculation of their pension in euro together with necessary information on the changeover by the Social Security Scheme.

The Ministry of Finance has initiated three rounds of monitoring of the progress of adaptation of information systems. The third monitoring round covered 654 public administration bodies (e.g. ministries and other central administration bodies, regional administration bodies, administrations of towns and municipalities). As of 30 August 2008, some 97% of controlled bodies have launched the dual display of prices and almost 84% have already tested their IT systems' compatibility with the euro. As much as 94% of administrations do not expect major problems with the conversion. Some shortcomings were identified in 6% of surveyed administrations, notably in small towns and municipalities. The corrective mechanisms have been employed in order to get all IT systems ready on time.

The Slovak Post- which will play an important role in the distribution of euro cash to the general public- is finalising its preparations: a majority of IT systems have already been adapted and tested. The Post will be selling euro coin mini-kits starting from December 2008 and make the payments of pensions and allowances in euro as of January 2009. The Post's staff will in practice be an important source of information for pensioners and other vulnerable groups of population. It has launched an intense information campaign and organised several rounds of trainings for its employees.

The ministries and other central administrative bodies have prepared information materials and organised trainings for employees of their branches and organisations under their responsibility. Special attention was paid to staff members who are in direct contact with general public. The Association of Towns and Villages have prepared two changeover manuals for the administrations of towns and municipalities and organised numerous seminars on the changeover topics (e.g. preparations of local budgets in euro, creation of euro teams, conversion of IT systems etc.) for their members. The Association does not expect any major problem in the changeover of local administrations.

In the last few months the preparations of Slovak public administration for the euro have achieved a noticeable progress. It is important to ensure that the administrative bodies where the shortcomings were identified finalise the adaptations of their IT systems and test their functioning ahead of €day. Smaller towns and villages should be assisted if needed.

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

Over the last months, the Slovak authorities have adopted a set of measures with a view to contributing to price stability and enhancing consumer confidence in the changeover period.

The Government Plenipotentiary for the euro together with the Association of Slovak Entrepreneurs have launched an '**Ethical Code**' project which bounds its adherents to respect the rules of the changeover, not to abuse it for their own profit and actively provide information on the changeover to their clients, business partners and staff. The logo of the Code can be currently found at some 16 000 places: shops, service providers' outlets, local and regional administrative bodies. The logo was introduced to the general public in a special TV spot. Citizens can complain about incorrect behaviour of the Code's signatories in the Plenipotentiary's office, which investigates the complaints and asks for corrections. The signatories breaching the Code can lose the sticker and be displayed on the 'Black list' of the Association of Slovak Consumers.

The obligatory **dual display of prices** in Slovak koruna and euro started on 24 August 2008 and will last until 1 January 2010. Its implementation is carefully monitored by the **Slovak Trade Inspection** which sends on a daily basis its inspectors to retail and service providers' outlets. 60 additional inspectors supported by the Commission under the Grant agreement reinforced the STI as of November. In the period 24 August – 31 October, the STI controlled 10 920 points of sale, 494 685 price tags of goods and 49 089 prices of services. In the last 7 days of this period the share of shops and service providers' outlets which applied all the changeover rules correctly reached 85% (compared with 72% in the last week of August). Virtually all prices were displayed in Slovak koruna and in euro. The share of prices of goods which were incorrectly converted to euro decreased to 2.78%. In the sector of services, there were 6.7% of prices in euro which were incorrectly calculated or rounded. The results of the controls are significantly improving over time. Many identified shortcomings are corrected already during the controls, with the help of inspectors. For more time demanding adjustments the inspectors fix a deadline of few days. If no correction occurs, the next step is to issue a warning and, eventually, to open an infringement procedure (13 infringement procedures had been open until 31 October). Serious breaches of the changeover rules can be fined up to €60 000.

Apart from own initiative controls, the STI also makes **'targeted' controls following complaints from citizens** on incorrect application of the rules of dual display or unusual increase of prices. Until 31 October, the STI had received 84 complaints from citizens, pointing at missing dual display on price tags and leaflets, incorrect calculation of prices in euro or missing conversion rate and some 42 complaints related to price increases. Out of 77 investigated complaints, only 35% proved to be justified (the prices were converted wrongly or the dual display was missing). The retailers were asked to correct the shortcomings within a short period of time. All complaints regarding the price increases were also carefully examined: the price changes were compared with long term trends, prices of the same product in other shops and considered within the broader context (e.g. applicable prices of inputs, developments on world markets). Based on the results of the analysis, the complaints were deemed to be unjustified. If the STI concludes that some prices rise abnormally, the retailers will be asked to reconsider their prices. As a possibility of last resort, the recently adopted amendment of the Penal Code provides for a possibility to put a retailer who abuses of the changeover in jail. This measure is mainly preventive.

The controls of the STI are complemented by a price monitoring scheme by the **Association of Slovak Consumers**. Inspectors-volunteers monitor the prices of selected products in some 350 retail outlets every two weeks and analyse their evolution over time. This 'regular' monitoring is complemented with random controls and investigations based on complaints from citizens. If an unusual price increase is identified, the inspectors-volunteers investigate the reasons. If a retailer or service provider does not provide a relevant explanation of the price increase and refuses to revert to a former price, the Association publishes the name of the shop on a 'Black list' on its web site. The black-listed shops and service providers will be under control of the STI and professional associations they belong to. If they signed the 'Ethical Code', they lose the right to use the subscribers' logo. The 'Black list' is also under daily scrutiny of media.

As far as the **official statistical monitoring of prices** in the changeover period is concerned, the Statistical Office of Slovakia monitors the prices of 196 frequently purchased goods from 1 August 2008 to 30 June 2009 every 10 days. Until mid-October 2008, the prices of the controlled sample of goods and services were decreasing or rising only slightly if compared to the beginning of August. The rise of prices of services and meat was neutralised by decreasing prices of petrol products and dropping prices of seasonal fruits and vegetables.

The developments of prices in all sectors of the economy are regularly examined by a special body created by the government- the **Price Council**. The Council is chaired by the President of the Slovak Chamber of Commerce and composed of several Ministers and other representatives of public and private sectors. If the Council concludes that prices in some sector increased abnormally it will ask the Minister in charge of the sector (i.e. the Minister of Agriculture for prices of food products) to provide a detailed analysis of the situation. If the analysis concludes that the price increase was 'speculative', the Minister has to propose corrective measures and regularly monitor their implementation. Should the measures employed prove to be insufficient, the Council can propose to the government to regulate the prices of a particular good or service. The administrative price regulation in all sectors of the economy was enabled by an amendment to the Decree 18/1996 on prices adopted in September 2008. The development of prices of dental care, fees for parking and driving school fees are currently under examination by the responsible Ministries.

- **Slovakia has put in place a comprehensive set of consumer protection measures. It is important that their purpose and functioning is well explained to citizens and**

businesses. The contact numbers for consumers' complaints should be widely advertised among the general public;

- **The voluntary commitment of the subscribers of the 'Ethical Code' to respect the rules of the changeover should be further promoted by the authorities and signatories themselves in order to increase consumers' confidence;**
- **It is crucial to ensure that the control bodies have sufficient resources to check on the implementation of the changeover rules throughout the whole country. Particular attention should be paid to price developments at the end of the dual display of prices and after the expiry of the 'Ethical Code', as well as in the sectors where irregularities were frequently discovered during the previous changeovers;**
- **Delaying normal price adjustments driven by changing production costs by administrative measures should be avoided. Distorted price signals resulting from administrative price regulation would unavoidably lead to larger price adjustments in the future.**

2.5. Communication activities and public opinion

The information campaign on the euro is in full swing in Slovakia. The government appointed a communication agency for putting into operation the media campaign. The spots have been mostly focussing on practical aspects of the changeover: the conversion rate, the dual display of prices, cash changeover modalities, the 'Ethical Code' and de-hoarding. A complementary media campaign that started 100 days before €day involves Slovak personalities explaining the benefits of the euro and experts responding to frequently asked questions about the changeover in short spots broadcasted after the evening TV journal. Furthermore, a 'Euromobile' cruises the country and provides information on the euro to vulnerable groups and citizens in rural areas. An event celebrating 100 days to euro was organised simultaneously in 8 regional capitals and attended by some 35 000 people. The largest mega-board ever displayed in Slovakia showing the euro coin is covering the front of the NBS building in Bratislava while its smaller copies are displayed at 8 regional branches of the NBS.

Additional communication activities are performed in a co-ordinated manner by the National Bank of Slovakia, the Ministry of Finance and other public administration bodies. Since the summer period the Slovak authorities have conducted regular press briefings that resulted in a well informed and overall positive press corps.

Under the Partnership Agreement, signed between the Slovak authorities and the European Commission on 7 December 2007 a number of joint communication activities were implemented: a travelling Euro Exhibition, a Euro Conference in September 2008, seminars for journalists, a survey and opinion polls. The Commission also provided the Slovak authorities with publications and promotional material.

In the context of the Partnership Agreement, both parties signed two grant agreements. The Commission is co-financing the employment of extra communication staff, the national euro website and telephone line, buying of space in electronic media, extra employees at the Slovak Trade Inspection, the campaigns dedicated to schools and Roma minority and direct mailings of the euro calculator and information leaflets to households (the information packages were distributed to all Slovak households in November).

The European Central Bank (ECB) also implements in cooperation with the NBS joint activities aimed at familiarising the general public (but also the professional cash handlers) with the euro cash changeover modalities and the visual appearance and security features of the euro banknotes and coins. The ECB's "€ Our money" logo was used to brand all communication activities. More technical training tools have been developed for specific target groups (banks, police forces, etc.) and over 7 million copies of various publications have been produced by the ECB for Slovakia. The ECB's information brochures and conversion cards will be distributed to all households in December.

The results of the recent Eurobarometer survey in Slovakia⁴ reflect the impact of the intensified campaign on the self-perceived level of information: 80% of citizens feel rather well or very well informed which is an improvement of 15 percentage points (pp) since spring 2008. The survey also showed that support for the euro is again on the rise: the trend from the spring 2008 has reverted and the number of people who are rather or very happy that the euro will be introduced is increasing (57%, +5pp since spring⁵), while only 35% are rather or very unhappy about it (-8pp). Over half of Slovaks think that the euro will be positive for their country and for themselves.

The fear of price increases at the occasion of the changeover remain a serious concern for almost 65% of citizens, which is, however, 11pp lower than in the spring 2008. The information campaign thus seems to bear fruit. On the other hand, only 39.5% (-7pp) think that the euro will ensure low inflation rates in the future, possibly reflecting the current uncertain global situation.

The last phase of the information campaign in Slovakia should address the remaining fears towards the euro and increase consumers' confidence. To tackle persisting fears of price increases in the changeover period, the citizens need to be continuously informed about the results of the price monitoring and other control activities.

⁴ Flash Eurobarometer 249, October 2008

⁵ Flash Eurobarometer 237, May 2008