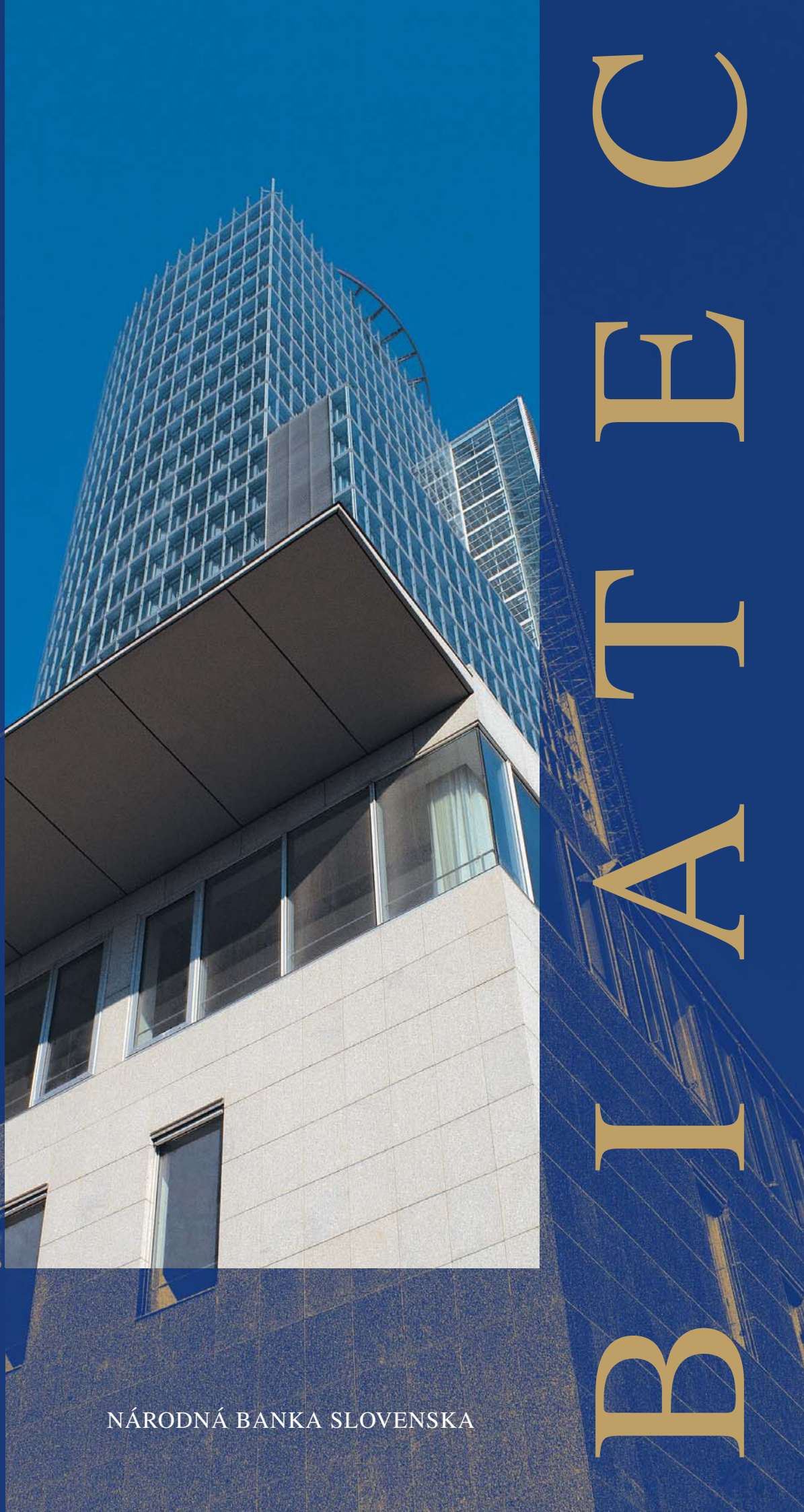


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June 2009
Volume 17

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JOURNAL



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NÁRODNÁ BANKA SLOVENSKA



The Euro – a symbol of the European integration



The president of the European Central Bank, Jean-Claude Trichet (on the right), is handing over a symbolic star, which every new euro area country receives, to the governor of the National Bank of Slovakia, Ivan Šramko.

The euro has been the official Slovak currency for almost half a year and our country has become a fully fledged sixteenth euro area country.

Although we are dealing particularly with the evaluation of the process of the introduction of the euro these days (and in this volume of the NBS Biatec monthly), it seems to be necessary to look back a few years and recall how all of this began.

We carried out the first serious analyses concerning the euro introduction in 2002, before Slovakia's accession to the European Union. In 2003, the Government of the Slovak Republic approved the Strategy for the Adoption of the Euro in Slovakia and when Slovakia joined the European Union in 2004, hardly anybody believed it would also join the euro area in a few years.

This sequence, however, is not random at all. It is the culmination of the efforts of the whole society, which started with economic reforms, proceeded with the influx of foreign investments, economic growth, stabilization of the Slovak koruna and naturally resulted in the fulfillment of

the Maastricht criteria. The National Bank of Slovakia was primarily responsible for meeting the inflation criterion, as well as the exchange rate criterion, for which, however, cooperation with the Government of the Slovak Republic was indispensable. Meeting the Maastricht criteria required an optimal combination of monetary and fiscal policy. The Slovak koruna entered the exchange rate mechanism ERM II as early as in November 2005. The National Euro Changeover Plan was approved in the same year; it stated that the NBS was responsible for the preparation of the financial sector and public information campaign. We have dedicated this number of Biatec precisely to those two activities to commemorate all the things we had to perform during the final phase of the introduction of the euro in order to make the entire process successful.

Our mission does not end by introducing the euro. We have to take advantage of all the possibilities, opportunities and potential entailed by the euro.



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Photographers: Pavel Kochan, archive NBS



Consistency was worthwhile: we have carefully organized and responsibly prepared the euro changeover

Igor Barát

Plenipotentiary of the Government of the Slovak Republic
for the Introduction of the Euro, Ministry of Finance of the Slovak Republic

It is of course too soon for a responsible evaluation of the impact of the introduction of the euro on the Slovak economy and its individual sectors, on businessmen and last but not least on the living standard of people. Credible conclusions will be feasible only after a longer period of time, covering several years at least. The analysis will be all the more difficult that the changeover to a new currency in Slovakia took place simultaneously with the break-out of a global financial and economic crisis and – as if there were not enough problems – the gas crisis also set in unexpectedly. Each of these occurrences left – each of them to a different extent – a mark on our economic development and therefore the task to abstract only the influences of the currency switch, the end of the exchange rate development of the koruna and the changeover to common European monetary policy is extraordinarily difficult and requires a longer time period.

The organisational issues of the introduction of the euro, however, are among the things we are already able to evaluate quite reliably today. If we wanted to include all details and all projects related to euro preparations in that evaluation, perhaps the result would be a fairly thick book and the appendix containing a list of the involved experts from individual institutions would definitely contain thousands of names. Instead of such a complex administrative specification, I will try to confine myself to some basic lessons and experience, which resulted for us from about the last seven years.

TIMELY PREPARATIONS, POLITICAL CONSENSUS

The timing and setting of a realistic time for Slovakia's accession to the euro area should be considered one of the most positive effects of entire process and at the same time an extraordinarily important precondition for the well-managed preparations. The fact that the target date of 1st January 2009 was set as early as in 2004, i.e. 5 years in advance, was of much help to all institutions as well as private firms in the process of planning, in a rational and the best possible way, the schedule of the preparations and of allocating the necessary funds and preparing the budgets. Consistent meeting of the set deadline (despite the fact that the confirmation thereof was in the competence of European Union authorities and

it was carried out de iure only six months prior to the € Day itself) definitely prevented unnecessary complications during the planning as well as during the actual implementation of particular conversion projects.

That is closely related to another considerable advantage we are lucky to have had or to still have – a broad political consensus on the issue of the introduction of the euro as well as of a specific target date. A look over our northern or western borders bespeaks what an advantage for sound preparations this is. Various, often rather irresponsible and occasionally even slightly dilettante rhetorical juggling with “possible” or “estimated” (each time new) dates for the accession to the euro area stated by political representatives in those countries leads to chaos in the issue and definitely does not motivate anybody to responsible preparations. No doubt, we cannot expect there to be an absolutely identical point of view everywhere, but such an uncontrolled “public discussion” in the form of flying verbal kites is likely to lead to nowhere. But let us get back to Slovakia and to our preparations. The high level of information provided was a very significant factor of the favourable result.

EVERYBODY WAS INFORMED

It is probably useless to go into details on the trivial argument that even the most consistent prepara-



Igor Barát, Plenipotentiary of the Government of the Slovak Republic for the Introduction of the Euro (first on the left), Ivan Šramko, Governor of the NBS, Robert Fico, Prime minister of the Slovak Republic, Andrea Elschek-Matis, head of EC Representation in Slovakia and Ján Počiatek, Finance Minister of the Slovak Republic at a press discussion after the publication of the European Commission Convergence Report.

rations would finally fail, if there was no general public awareness about at least the basic circumstances of the euro changeover, the deadlines for cash conversion, the conversion rate and the appearance of the means of payment. That is why a huge amount of effort was logically put in the information campaign, which – equally logically – beard fruit. It is also probably useless to state dry figures, but one for all of them will do. During the last six months prior to the introduction of the euro, the level of information was stable at around 90 percent in statistical data, ranking Slovakia among the countries with the highest level of information in a comparable period before the replacement of the national currency by the euro. This figure was the result of measuring the subjective feeling whether the person itself felt to be sufficiently informed. The fact that the remaining approximately 10 percent of respondents did not state to have no information was a result of similar significance. They only had the subjective perception that their level of information was insufficient. The percentage of respondents who “had no information” was zero. It was just the good level of information (i. a. about the possibilities and deadline for the cash conversion and about the rules of dual circulation) together with a very good preparedness of banks and the retail sector that guaranteed that no stress situations and long queues arose and the “switchover of ordinary life” from korunas to euros was basically trouble-free.

RESPONSIBLE BANKS AND RETAILERS

If we modestly omit appreciations of the enormous effort of the National Bank of Slovakia in the process of ensuring cash and the entire frontload-

ing, which would deserve a separate article, the list of the organisational prerequisites of a smooth change of currency must also include key private businesses like banks and retail firms.

It was pretty interesting to observe how the target dates for ATM conversion were gradually becoming shorter. First information from banks indicated that more than twelve hours, sometimes even about 1 to 2 days, would be needed. The ATM conversion eventually became a kind of matter of prestige. Thank God – because the result was that some ATMs were able to change over from the SKK to the EUR mode literally within seconds, other ATMs took several minutes, while the absolute majority of ATMs was fully functional and distributed euro banknotes smoothly on January 1st. At that time, a smooth distribution of new cash was ensured by extended office hours of the individual bank branch-offices and numerous other helpful measures of the banks. This might look like an idyll; although some problems occurred, of course, now and then and various small disruptions or misunderstandings had to be solved sometimes, as a whole, the banking sector has mastered the euro changeover including the secondary frontloading of 14 thousand clients (!) during an extremely short period of time in an absolutely excellent way.

REPLACING THE KORUNA WITH THE EURO MORE SLOWLY?

The same conclusion applies to the retailing sector, primarily to individual large chains, but also to various small or “non-networked” retailers. Apart from very few exceptions, there has been no radical problem with the dual circulation re-



Citizens of Slovakia could obtain answers to questions about the euro on the free Euro Info line.

gime, the cashiers patiently communicated with customers, they accepted both currencies including their combinations without reservations and attempted to give the change in euros if possible. The European Commission, which was monitoring this process in Slovakia very consistently, has assessed the pace, at which the euro replaces the national currency in cash operations, as being slower than in other countries before us and has interpreted that as a fact that would be appropriate to improve, that is to accelerate the reduction of koruna payments. Our opinions were rather divided on that matter. As early as during the campaign itself, we were trying to calm down the public by stating that there is no reason to get rid of cash koruna savings in an excessively fast way, that there is no need for long queues in banks and that the 16 day cash circulation can be used to get rid of koruna banknotes and coins up to the last day of the period. The public accepted these advices to a large extent and what may have seemed "externally" as a too slow beginning of euro circulation, was, on the contrary, a very calm and smooth changeover from our point of view. This way, we managed to avoid unnecessary stress and to prevent an enhancement of the already extreme rush on bank employees.

THE CONSUMER DOES NOT PAY ANYTHING EXTRA

Last of all, I would like to get back to a statement from the beginning of this article. For the time

being, it is indeed hard to exactly define and map the share of the influence of the individual phenomena that occurred in our economy over the last 5 months in the variety of factors. It is equally difficult to attribute the exact importance to the individual measures, thanks to which – together with influences from abroad – the level of our consumer prices remained relatively stable. The Umbrella Law and the ban on passing over the conversion costs to prices, the Criminal Code and its sanctions, the Act on Prices and the Price Council of the Government, the mandatory dual display, the Ethical Code, ten thousands of inspections of the Slovak Commerce Inspection, the somewhat controversial but surely not useless monitoring of the Consumer Association...all of these were the measures that have made up a very strong complex tool for maintaining price stability; and we also realized external influences. As a result, the often pronounced concerns about rises of prices due to the new currency definitely have not materialized. Should someone object that this has been caused mainly by the global crisis and not by our measures, such an argument is just another confirmation of our words that the price level is dominantly influenced by other factors than the actual currency, in which the prices are expressed. The result of NBS research, according to which the cap of the influence of the euro on the total HICP inflation is the value of 0.19 b.p., is therefore no surprise.



Information campaign on the introduction of the euro

Martin Šuster
National Bank of Slovakia

The information campaign was the most important part of preparations for the introduction of the euro for most citizens – at least until they could hold euro banknotes and coins in their hands. However, we probably would have introduced the euro fairly smoothly without an organised communication campaign, just like the introduction of the Slovak koruna was not accompanied by any noticeable campaign. On the other hand, I am convinced that the campaign considerably improved the comfort and security felt by the citizens during the euro changeover and also helped to reduce some costs in other areas of preparation. In other words, the investment in the campaign has paid off.

Before we take a look at the entire campaign from its beginning till its end, let us look at the results. When the final campaign spots were broadcast in January and February – there were 9 of them in total – 93% of Slovak citizens were satisfied with information about the euro. The mark 1 - or recently the mark A - is usually given at schools for a result above 90%, therefore I hope that all participating in the campaign can be satisfied.

The nationwide Slovak information campaign on the introduction of the euro was under the charges of the National Bank of Slovakia (NBS). To coordinate all activities, the NBS set up the Communication Working Committee on the Introduction of the Euro, representing jointly central authorities and private sector representatives as well

as public media were represented. The committee set up a sub-committee for informing Roma communities. The financing of the core part of the campaign was shared by the government – represented by the Ministry of Finance in this case – and the NBS in a 60:40 ratio. It has to be admitted, however, that the Ministry of Labour, Social Affairs and Family, the Ministry of Education, the Ministry of the Economy and the Government Office also significantly contributed to the campaign.

The campaign had to provide the Slovak public with practical information about all the necessary facts before the introduction of the euro. That is why the most important messages contained information on the exchange of cash, the appearance of euro banknotes and coins, the conver-



The NBS building clothed in a mega billboard.



Welcoming the New Year and the new currency on a square in Bratislava.



sion rate and value of the new currency, the dual display of prices, dual circulation, cash exchange recommendations, consumer protection rules, rules to prevent price increases due to the euro changeover, directions to other euro information sources and basic facts about the Economic and monetary union and the European Central Bank.

The main target group of the campaign was the general public; the interests of other groups – children and students, disabled, deprived groups, national minorities, sole traders, small and medium entrepreneurs, municipalities and public administration – were also taken into account.

Since the campaign had to cover a diverse target groups, it used a broad range of channels. Information in the media, particularly on TV, had priority. In addition to the news services

milestones before the introduction of the euro and included a simplified description of the benefits of the transition to a common currency.

The second wave called “Equal value – different currency” followed in June and its aim was to reduce unfounded fears of price increases due to the introduction of the euro. Once the conversion rate was set, a wave called “You know everything about the euro – the conversion rate” was launched. It explained the conversion rate and the most important facts the citizens should know about the euro.

The fourth wave called “The Ethical Code” invited businesses to join the Ethical Code for the introduction of the euro. A fifth wave, concerning the dual display of prices, was also launched in August.



Visuals of the media campaign.

and publicity, the purchase of media space and the broadcast of information spots, or the publication of press advertisements with messages strictly according to sponsor's requirements, were anticipated for in the campaign budget. Further sources of information on the euro included direct mailings to households, a website, a free phone line, various brochures, leaflets and posters, audiovisual materials, conferences and seminars, and several events.

The most important part of the campaign was the media part. According to original plans, the media campaign was supposed to start only in July 2008, after the Council decision on Slovakia's accession to the euro area. However, at the beginning of 2008 public opinion polls revealed that Slovak citizens demanded information earlier and in more detail than originally expected. That is why the media campaign started already in March 2008 – symbolic 300 days before the introduction of the euro. The media campaign had a total of 9 waves between March 2008 and February 2009.

The first campaign wave called “The euro-story” was broadcast in March 2008; it focused on the

The media campaign reverted to the Ethical Code topic in November – this time, however, the information was targeted to consumers.

The seventh wave in December 2008 called on the citizens to deposit their cash in banks, which will convert their korunas to euros automatically, by the end of the year.

In January 2009, the campaign continued with an eighth wave dealing with the exchange of cash and with dual cash circulation.

The last campaign wave was launched in February 2009 with the motto: “Every cent counts”. It emphasized the value of euro coins.

Besides using information spots in television and on radio and printed press and outdoor advertising, the NBS and the Ministry of Finance of the Slovak Republic (MF SR) also cooperated with the media on the preparation of specialised products focusing on the euro. Two series of short documents called “How do I see the euro” and “100 questions about the euro” broadcast by the Slovak Television and a series of competitions in the broadcast “Teleráno” (TV morning) of Markíza TV have to be emphasized.

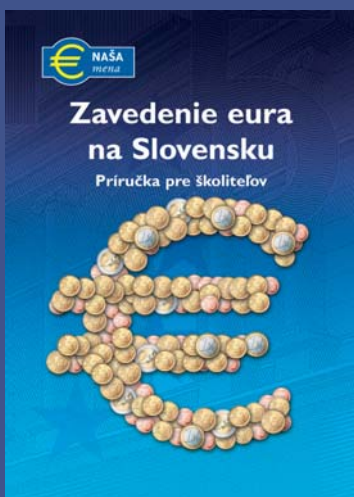


In March 2009, the NBS and the MF SR tested the evaluation of the media campaign on a representative sample of Slovak population. Positive assessments like useful, informative and comprehensible prevailed considerably in the campaign evaluation. Spontaneous knowledge of the campaign was demonstrated by 83% of the respondents, which considerably exceeds analogous results for commercial advertising campaigns.

The NBS and the Ministry of Finance of the Slovak Republic have distributed more than 20 million publications within the information campaign. Two direct mailings to all households are the most important ones. Besides tens of other publications about the euro for the general public, specialised publications for children and the



Jean-Claude Trichet is lecturing at the Slovakia Euro changeover Conference.



Information materials on the euro.

youth, sensitive target groups, national minorities, the professional public and businesses had been produced.

In addition to purely informational activities, the campaign also included several exhibitions, competitions as well as information and entertainment events. Those events brought some human and attractive elements to the campaign and they provided substantially more detailed information to interested persons. Such events included the Slovakia Euro Changeover Conference, the NBS Open Door Day in September 2008, the countrywide Euro Day and an information stand at the Pohoda festival. An adapted truck – the Euromobile - has brought information to more than 360 municipalities.

The NBS prepared 4 exhibitions related to the euro during the year 2008. These were the NBS travelling exhibition "Slovak euro coins", the European Commission exhibition "The Euro, our currency", an exhibition of the European Central Bank and the NBS exhibition "From the koruna to the euro" in Brussels.

Several competitions took place as well: the



People showed interest in information from the Euromobile as well as in the mascot during the Euro Day in Trenčín.

NBS, in cooperation with Junior Achievement Slovensko, has organized three competitions for children; the MF SR has organized a competition



Snapshots from exhibitions of the ECB and the European Commission.

in cooperation with the Eurotelevízia weekly, and a large competition for children has been also organised by the Euroškolák magazine.

Training on the euro was implemented mainly by means of seminars and conferences. The NBS and the MF SR have organized a total of 319 seminars, attended by 18,000 participants, for various target groups. More than one third of the presentations was targeted for representatives of sensitive target groups, other presentations were aimed at schools, self-government entities or businesses.



All required information about the euro was available at www.euromena.sk. The website was launched by the MF SR in December 2007 and it was maintained actively till the end of March 2009. The site was visited by 2.2 million users over the period; the greatest interest was scored in January 2009 – 355 000 visits. The website was supported by banners placed on most visited Slovak portals in September 2008.

Slovak citizens has the opportunity to receive answers to their questions on the euro through a free phone line – the Euro Info line 0800 103 104. The Euro Info line was run by the Government Office of the Slovak Republic. The info line received 106,000 calls during the year 2008 and the first quarter of 2009.

Although the information campaign was aimed at the general public, special attention was paid to sensitive target groups – people with impeded access to information or needing some specific information. National minorities – the Hungarian and Romany minority – had access to publications in their native language. A special leaflet typed in large letters has been prepared for partially sighted people. A talking card, an information CD and particularly training organized by the Slovak Blind and Partially Sighted Union have provided blind people with information. Cash-test tools helping to discern euro banknotes were also available to blind people. Deaf people have been provided with a DVD in sign language, train-



Specific information materials and tools have been prepared for sensitive target groups.

NAŠA mena

Deň € = 1. január 2009

ZVUKOVÁ KARTA

EUROPSKA CENTRÁLNA BANKA
EUROSYSTÉM

NÁRODNÁ BANKA SLOVENSKA



ing, teletext information in several televisions and an easily to read leaflet. The leaflet has been also used for mentally handicapped and mentally ill persons. Informational activities, mainly seminars and training of multipliers, were focused on the long term ill, homeless, prisoners, children in foster homes, addicted to psychoactive substances and on crisis centre clients. Special tools like television broadcasts in the Roma TV magazine, radio broadcasting, a theatre play about the euro, a CD, DVD and other tools were created specifically for the Roma communities.

The biggest sensitive target group are senior citizens. In their case, interest groups (particularly the Association of Slovak Pensioners), municipalities and churches helped to inform them.

The results and effectiveness of the campaign were measured regularly by public opinion polls of the Statistical Office of the Slovak Republic. After the introduction of the euro – in January 2009 – 93% of Slovak population were satisfied with the information on the euro they have received. The most important channels were television, the press, the internet, family and friends and direct mailings to households. According to the Eurobarometer poll, the National Bank of Slovakia, European institutions, the government, municipalities and banks were the most credible information sources.

Several Slovak and foreign institutions participated in or contributed to the campaign.

The European Commission has contributed to the campaign by three grants totalling 1.8 million euros. Moreover, the European Commission has organised its own activities, for example, a euro exhibition, several public opinion polls; and provided Slovakia with approximately 3 million publications.

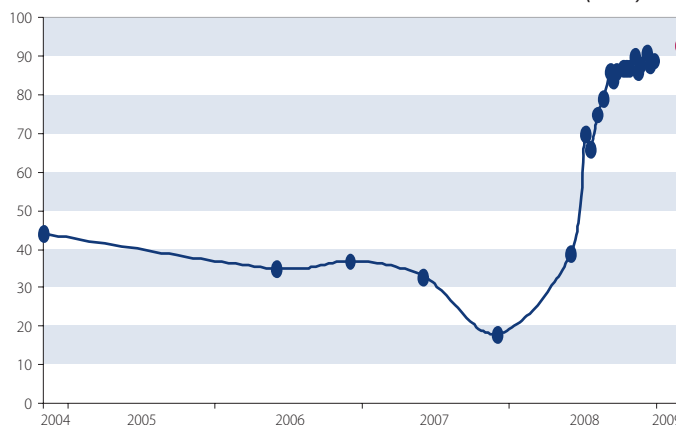
The European Central Bank focused mainly on help related to the provision of information on euro banknotes and coins. It has provided more than 7 million publications on this subject, has organised a euro exhibition and has created a partner programme for the private sector to promote the propagation of information on the euro. The “Euro OUR money” campaign logo has been created by the European Central Bank.

The Ministry of Labour, Social Affairs and Family delivered information to all old age pensioners, has organized a number of conferences and seminars and has issued 19 publications for several sensitive target groups.

The Ministry of Education has prepared a project called “The euro to schools”, which has brought information on the euro to every student of an elementary and secondary school. The Office of the Government Plenipotentiary for Romany Communities, municipalities and towns, the Self-governing Regions, banks, business associations and the media also significantly contributed to the campaign.

(The author has been the head of the Communication Working Committee for the Introduction of the Euro)

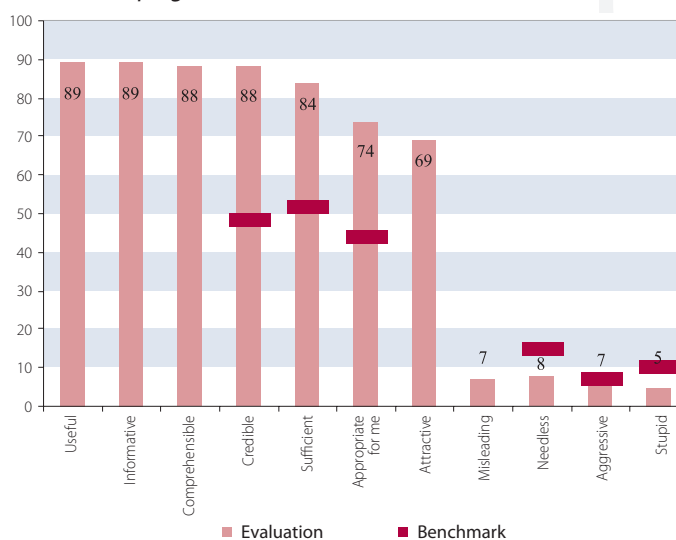
Chart 1 Public awareness of the introduction of the euro (in %)



The sum of the answers “sufficient” and “more sufficient than insufficient” to the question “Is your information on the planned replacement of the Slovak koruna with the euro sufficient or insufficient to you?”. The question in the last poll in 2009 was “Was the information on the introduction of the euro you received from June 1st to December 31st 2008 sufficient or insufficient to you?”.

Source: Statistical Office of the Slovak Republic.

Chart 2 Campaign evaluation



Source: Post-test of the campaign for the NBS, IPSOS-Tambor.



The website www.euromena.sk served all the necessary information.



Information materials: another euro story

PhDr. Eva Karasová
National Bank of Slovakia

The preparation, production and distribution of information materials has been an integral part of the information campaign on the introduction of the euro. 118 types of various publications, posters and information and promotion materials were available from 2005 to 2008 and their total number reached the unbelievable number of 20,837,825 copies.

The publications came from many sources:

- within international cooperation, the European Commission delivered 38 types of materials in a total number of 3,056,000 copies,
- the European Central Bank provided 27 various information totalling 7,319,125 pieces,
- the National Bank of Slovakia, together with the Ministry of Finance of the Slovak Republic, prepared 14 types of publications,
- and the National Bank of Slovakia itself published 39 materials in the total number of 7,082,300 copies.

Two direct mails, distributed by means of the Slovak Mail to 1,928,095 households in Slovakia, found probably the most favour among the public. The first mailing was distributed from 10 November to 24 November 2008 and contained the brochure "Euro, welcome to Slovakia" of the Ministry of Finance of the Slovak Republic and the National Bank of Slovakia, the European Commission flyer "A short euro manual" and an eurocalculator with a pre-set Slovak koruna to euro conversion rate. The materials offered practical information about the conversion rate, money exchange, consumer rights of the citizen, rounding etc.

The second direct mail to households, dispatched from 1 December 2008 to 5 December 2008, was prepared by the European Central Bank

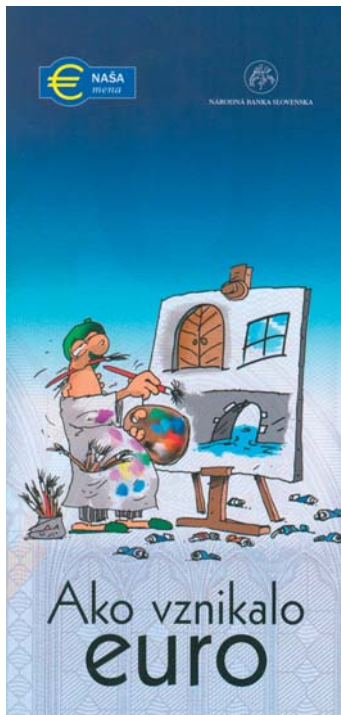
in cooperation with the National Bank of Slovakia. It consisted of an information flyer on security features of the euro banknotes and on the replacement of Slovak banknotes and coins by euros. It also depicted the national sides of Slovak euro coins and the sides of the euro coins used in euro area countries. The citizens have also received 2 conversion cards with security features of the euro banknote on one side (if we take 20 € as an example) – the watermark, security stripe, raised print and a hologram – and a €-SKK conversion table with 28 numeric values on the other side together with the mailing. In both cases, a Hungarian and a Romany version was available to national minorities.

The National Bank of Slovakia distributed the materials to the entire country within a countrywide information communication campaign; the distribution culminated from September to the end of 2008. The information materials were served upon post offices, towns and municipalities, commercial banks, store chains, children's homes, travel agencies, railways, schools, libraries, airports, social service facilities, central bank branch offices, as well as various agencies, unions and associations.

The information materials were prepared out of consideration for different target groups. Publica-



An information flyer on the security features of euro banknotes and a publication from the first mailing to households.



NBS flyers informed on important milestones on the road to the euro.

tions for children and the youth, for example the children brochure "How Ann and Alex caught the money counterfeiters", a pexeso game, posters, as well as special brochures for partially sighted citizens, easy to read texts for people with a limited ability to understand a text, but also tailor-made materials for businessmen, sole traders, trainers, government and public administration employees and for journalists, enjoyed great popularity. The most important publications were also avail-

able in the Hungarian and Romany language.

Despite the fact that the media have been the primary source of information for the citizens; printed information materials, particularly until the end of the year 2008, played an important role as a source of information on the euro. They also contributed to the fact that the respondents found the National Bank of Slovakia the most credible source of information in the Eurobarom-



A children brochure also attracted the interest of elderly citizens.



The view of the Slovak Banking Association

Ing. Marcel Laznia
Mgr. Vladimír Hrtko, PhD.
Slovak Banking Association

The Slovak banking sector has always realized the importance of the common currency euro for our economy; therefore it has had an active attitude towards the euro changeover despite the non-negligible costs associated with the process.

Banks being members of the Slovak Banking Association (SBA) decided as early as in 2006 that they would coordinate a part of the activities related to the introduction of the euro within a common project. The Commission for the Introduction of the Euro started to work within the association by virtue of a decision of the SBA Presidium of 1 December 2006. The aim of the project was to ensure, within the activities of the commission, the coordination of activities after the introduction of the euro in the Slovak banking sector.

The banking sector implemented the conversion process at the turn of the years without any problems. A total of more than 11 million accounts, 31,107 payment terminals and 2,268 ATMs was converted during the first four days of January, and many banking systems were fully operational earlier than originally expected. We are glad that the association and the Commission for the Introduction of the Euro in SBA have also participated in the process of the introduction of the common currency in Slovakia by their activities.

ACTIVITIES OF THE COMMISSION FOR THE INTRODUCTION OF THE EURO

Activities of the commission particularly focused on the coordination of selected activities between the individual members of the SBA, coordination of common activities together with the NBS (Working Committee for Banks and the Financial Sector, Subcommittee for Banks), the Government of the Slovak Republic and the parliament and on communication of common activities, by which it addressed the public – the clients of banks.

Within common activities with government institutions and the NBS, the association assesses positively the chosen form of cooperation by means of activities of the Working Subcommittee for Banks. The subcommittee was composed of two representatives of the SBA, three representatives of the NBS, four representatives of commercial banks and one representative of the State Treasury, and it has created a suitable platform for discussions and for the adoption of decisions.

A weakness of the actual preparations for the euro changeover was the preparation of the legislative framework and, undoubtedly, unexpected

facts in the legislative process. It was indispensable to assess important legislation, e.g. decrees of the NBS and of ministries on the rules of dual display, in the ECB. Not enough time was made available for that act. The NSB decree on dual display was published in the NBS Bulletin two months prior to the start of the dual display. The same approach has been applied e.g. in the case of the contract on participation (of a bank) in TARGET 2, which was being assessed at the ECB as late as at the beginning of December 2008.

Another problem was the adoption of a motion to amend the Umbrella Law (November 2007), which stipulates the duty to perform dual display not only of the initial state and final state of the respective value stated in the account statement for the reporting period, but also of fees, compensations and other prices paid to the financial institution, as well as the unplanned adoption of a motion to amend the Umbrella Law indirectly through an alteration of the Act on Securities (November 2008), which postponed the free exchange of Slovak korunas.

THE YEAR 2007 AND LEGISLATION

The year 2007 was an extraordinary year for the introduction of the euro in that the legislative framework for the introduction of the new currency was completed in the form of adoption of Act No. 659/2007 Coll. – Act on the introduction of the euro in the Slovak Republic and on amendments of certain acts, which is valid from 31 December 2007 and effective from 1 January 2008. The Slovak Banking Association provided its comments to the text of the act. The act was altered in the final stage of the legislative process. The banks adopted a common interpretation of the alteration of the act and agreed on a common approach. In the area of legislation, it is also necessary to mention the preparation of the text of the Decree on dual display, which run through the comment procedure at the end of 2007.

Important outputs of the project in the area of public relations and communication were the documents Decalogue for the Consumer and Decalogue for the Businessman. The assembly of SBA members (on 14 December 2007) supported



and started the preparation of crisis communication of the SBA within communication activities in accordance with the SBA public relations strategy. A document containing the Most Frequent Questions and Answers related to the Euro was created within other communication activities of the SBA. The association, as a member of the Working Committee for Communication, participated in the preparation of crisis communication at the national level.

At its meeting on 27 June 2007, the assembly of SBA members approved the accession of the SBA to the Ethical Code for the Introduction of the Euro and called on its member banks to also become signatories thereof. Most members of the SBA became signatories of the Ethical Code and have adhered to its provisions.

Important decisions concerning the issue of the turn of the years 2008/2009 have been processed and adopted by the Presidium of the SBA in cooperation with the Commission for the Payment and Settlement System and Payment Instruments and the Commission for Payment Cards. In the cash circulation area, emphasis has been put on cash frontloading and the first estimates of banks for the required volumes of cash for the needs of frontloading performed in this context. In connection with secondary frontloading and the need of banks to enter into contracts on frontloading with frontloading entities, there were attempts within the SBA to create a standardized contract on cash frontloading, which would be usable by all member banks. For the banks, this proposal served as a source document for processing their own contracts.

THE YEAR 2008 AND AMENDMENTS OF ACTS

In terms of legislation, the year 2008 was characterized by the adoption of a group of decrees regarding the rules of dual display by individual ministries and the NBS, and the amendment of a second group of acts, on which the introduction of the euro had considerable impact. SBA members in the individual commissions commented actively on the submitted decrees and draft acts, which directly or indirectly concerned the banking sector.

The most important act in this area can be deemed to be the adoption of the conversion rate by a Council Regulation (EC) on the adoption of the conversion rate between the euro and the Slovak koruna published on 24 July 2008 in the Official Journal, as well as the decision on the adoption of the single currency in Slovakia by Council Regulation (EC) repealing the derogation and the adoption of the single currency in the Slovak Republic published in the Official Journal on the same day.

In the field of non-cash circulation, the operational regime for EUROSIPS and TARGET2 was agreed upon in May 2008 for the period from 31. December 2008 to 5 January 2009 as one of the key inputs for conversion in banks. The payment

of income payable to banks on 2 January and 4 January 2009 was widely discussed within the SBA, because the 2 January was an ordinary business day, but not all banking systems implementing payment transactions were fully functional.

In the area of public relations and communication and in connection with the decision of the Member Assembly of December 2007, an SBA Crisis Communication Plan for the introduction of the euro was gradually prepared. Within the agreed scope of communication with the public, the SBA issued a series of information on the minimum standards of banks related to the euro changeover. The crisis communication also included a set of preparatory press releases on the functioning of the systems and branches of banks at the turn of the years 2008/2009. The SBA ensured the collection and evaluation of data from individual member banks at that time.

FOUR DAYS AT THE TURN OF THE YEARS

All activities, both activities of the commission and of bank employees, culminated in a four day period at the turn of the years. All relevant banking systems, bank accounts, payment systems and ATMs were successfully converted during those four days. In many cases, the successful conversion took place earlier than planned. For example, as early as on 2 January, the conversion process was completed by 20% of banks.

The card systems (payment terminals and ATMs) were the first to be converted. More than 32,000 payment terminals were fully functional and available as early as a few minutes after the midnight between 31 December and 1 January. The conversion of the 2,268 ATMs also proceeded normally, according to schedule. More than 96% of all ATMs were functional within two hours after midnight. During the first day of January alone, the clients performed 139,291 withdrawals, representing an increase by some 600% against the same day of 2008. The total volume of withdrawals reached a value of EUR 5.22 m. on that day.

In the following days until 5 January, the banks worked under restricted regimes and mostly performed exchange operations in more than 300 branches. The clients have carried out 241,690 transactions during those days and the total volume of cash exchanged was almost EUR 257 m. As from Monday, the 5 January, the conversion was successfully completed and banks started to provide their services in the standard regime.

An extraordinary contribution of employees of all banks to the introduction of the euro was the fact that they have been willing to work overtime, even during holidays. They therefore certainly deserve a special thanks, because if they had not worked, it would not be possible to master the euro changeover without problems.

THE YEAR 2009 AND DUAL CIRCULATION

The banks assess positively the fact that the transitional period for the use of both currencies – SKK and EUR – took only half a month. This time



turned out to be sufficient; bank clients have not announced any substantial problems. However, it turned out that several dealers had not estimated correctly their need of coins and banknotes during the frontloading and made provisions of more cash than needed. They started to deposit the excess cash in banks, which caused several problems to the banks. The banks did not like being criticized for charging fees for accepting such cash. Such fees had also existed in the past and their amount did not change by the introduction of the new currency, although the revenue from

the fees did not cover the banks' cost incurred by the handling the cash. The banking sector finally agreed to a cancellation of those fees by the end of August 2009, which we perceive as an additional contribution of the banks to the introduction of the euro in Slovakia.

The euro changeover has been successful from the point of view of banks. All relevant public institutions, but above all bank clients, have appreciated the accommodating approach of banks, which is sure to have helped a trouble-free introduction of the new currency in Slovakia.

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Preparation for the introduction of euro into cash circulation

Ing. Jozef Vrana
National Bank of Slovakia

Following the Decision of the Council of the European Union of 8 July 2008 on the fulfilment of all conditions necessary for the introduction of euro, Slovak Republic became the 16th euro area member as of 1 January 2009. Although the final decision on the accession of Slovakia came as late as summer 2008, Národná banka Slovenska as well as other money market entities had started to prepare themselves for the new currency much earlier. In line with the National Euro Changeover Plan in the Slovak Republic, euro was introduced using the "Big Bang" scenario, i.e. into both cash and non-cash circulation without any interim period¹. Compared with the euro changeover scenario used in the former euro area member states where two years passed between the introduction of euro into non-cash circulation and into cash circulation, the "Big Bang" scenario is more demanding in terms of preparation, mutual coordination and implementation of euro cash frontloading of all money market entities.

BASIC DOCUMENTS

The basic frame document in the process of preparation for the introduction of euro in the Slovak Republic was the National Euro Changeover Plan adopted by the Slovak government on 6 July 2005. The document stipulated the responsibilities and main tasks to be performed by particular economy sectors, which were evaluated on a biannual basis and changed or supplemented by newly identified tasks as necessary. Tasks related to the introduction of euro into cash circulation were given under the patronage of the Committee for banks and the financial sector.

Operative tasks pertaining to the NBS and banks were specified in an internal NBS document "Strategy for Introducing the Euro in Cash Circulation and Withdrawal and Destruction of the Slovak currency", which included the calculation of the necessary amount of euro banknotes and coins at the time of changeover, frontloading and sub-frontloading, withdrawal and destruction of the Slovak currency as well as emergency planning in the case of a negative verdict of the European Commission on Slovakia's accession to the euro area.

The euro cash frontloading contract concluded between the NBS and banks specified in detail all aspects of frontloading. Along with the actual requirement of banks as to the amount of euro banknotes and coins necessary for changeover it specified the prerequisites of their storage, packaging, transportation, repayment of euro cash, fines for the failure to refrain from introducing euro cash prior to the changeover date, and solutions to possible disputes.

CALCULATION OF THE NECESSARY AMOUNT OF EURO BANKNOTES

NBS estimated the necessary amount of euro banknotes using a combination of the methods of preserving the value and number of Slovak banknotes in circulation as at 31.12.2006. By extrapolating these data we obtained the likely number of Slovak banknotes and their value for the years 2008 and 2009. We determined the structure of euro banknotes using the EMI method, which is also used by the European Central Bank in its determination of the optimum amount and structure of euro banknotes for new euro area members. The method is based on the allotment of the value of the legacy note to two nearest values of euro banknotes indirectly proportional to their distance². In our quantification of the final number of euro banknotes we took into account that Slovak banknotes with the nominal values of SKK 20, 50 and 100 would be replaced by coins (proportionally in case of the SKK 100 banknote) and we increased the quantity of the € 50 banknote which, in line with expectations, became the most widely used banknote in ATM's. NBS set the level of stock to 60% of the initial requirements. A total of 188 million euro banknotes had to be provided for the purposes of money circulation³.

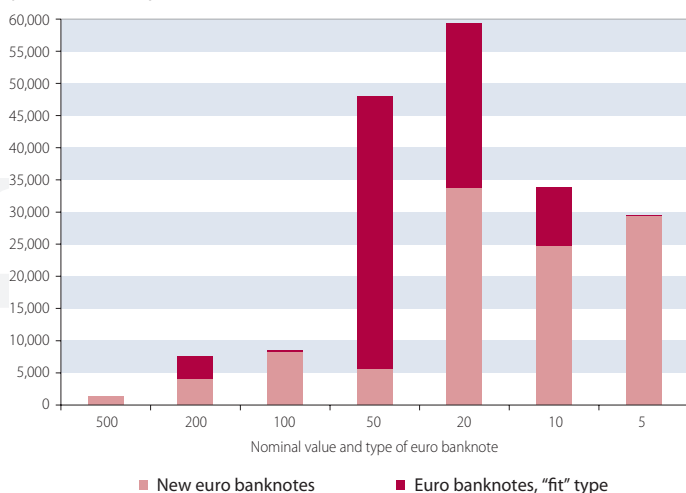
CALCULATION OF THE NECESSARY AMOUNT OF EURO COINS

When determining the optimum amount of euro coins it is not appropriate to use the same method as for euro banknotes – if the calculation of the necessary amount of euro coins were based on the amount of coins of legacy currency, the

- 1 During the dual circulation period – i.e. during the first two weeks of the year 2009 – people could pay for goods and services using both Slovak koruna and euro but change was only given in euro. As of 16 January 2009 euro became the sole legal tender on the territory of Slovak Republic.
- 2 For instance, if a note in the original currency is worth EUR 17.5 after the recalculation of its value, then its number is divided in the ratio of 75% for the €20 note and 25% for the €10 note.
- 3 In the course of January 2009 there were significant increases in the withdrawal of € 100 and € 500 banknotes, due to which the stock level of supply of these euro banknotes fell below the benchmark level. NBS was forced to ensure further performed an ad-hoc transport of these banknotes in a total number of 8.186 million pieces.

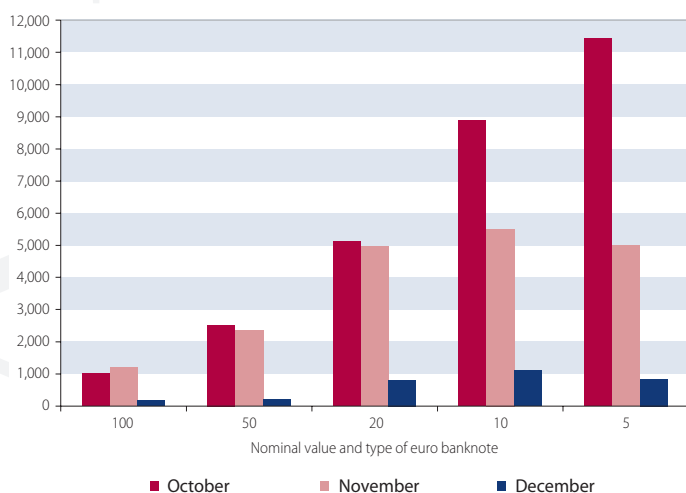


Chart 1 Euro banknotes borrowed from the Eurosystem (in thousands)



Source: NBS.

Chart 2 Frontloading of banks with euro banknotes (in thousands)



Source: NBS and banks.

area countries with a similar structure of legacy currency as well as the frontloading requirements of banks in the Slovak Republic. NBS originally planned to introduce 400 million euro coins, i.e. 74 coins per capita. However, due to increased frontloading demands of banks the total number of euro coins was finally set to 500 million pieces (93 coins per capita).

FRONTLOADING WITH EURO BANKNOTES AND COINS

Early frontloading of banks with euro banknotes and coins and subsequent sub-frontloading of bank customers was a key element for a smooth introduction of euro in cash circulation. The entire frontloading and sub-frontloading process was carried out exclusively on a contractual basis and was fully in accord with the Guideline of the European Central Bank on frontloading and sub-frontloading⁴, which specified the rights and responsibilities of stakeholders, the period of frontloading and sub-frontloading, collateral and statistical data reporting.

Frontloaded euro cash was intended to cover the needs of banks for the first five days after the changeover. Due to the absence of relevant data it was difficult to determine an optimum amount and structure of euro cash for frontloading - for this reason the assessment of banks commenced already in February 2007 and evaluations were updated on a biannual basis. The greatest shift towards the implementation of the final amount of frontloaded euro cash occurred with the second updated estimate of March 2008, which for the first time included the requirements of bank customers for sub-frontloading. In this estimate banks increased their need for euro coins from the original 200 to 320 million coins, due to which the NBS had to reassess the total production of euro coins from 400 to 500 million pieces. The final estimate of the need for euro banknotes and coins of May 2008 became part of the euro cash frontloading contract.

Each bank that requested euro cash frontloading had to deposit a collateral with the NBS amounting to at least the value of frontloaded euro cash, in line with the ECB guideline on frontloading and sub-frontloading. This collateral was then repaid in accordance with a linear debiting model, in three equal instalments on the settlement date of the first, fourth and fifth main refinancing operation of the Eurosystem (January 6 and 28 and February 4, 2009).

FRONTLOADING WITH EURO BANKNOTES

NBS borrowed the euro banknotes from the Eurosystem. The results of an analysis concerned mainly with the security and efficiency of transport were taken as the basis for the selection of the Austrian Central Bank as the supplying Eurosystem Central Bank. 188 million euro banknotes worth more than EUR 7 billion were transported to selected NBS storage facilities within

⁴ 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, as amended by the Guideline ECB/2008/4 of 19 June 2008.

results would be considerably distorted. The reason lies especially in the loss rates of coins that no longer participate in the circulation and do not fulfil their transaction function. It is very difficult to establish the percentage of coins that are no longer in circulation but we may say for sure that the loss rate of coins increases with the decrease in their nominal value, which was made obvious by the low return rate of 10 and 20 halier coins at the time of their cancellation as legal tender.

We based our analysis of the necessary number of euro coins on the number of inhabitants and the value of coin holding per capita. The basis for comparison comprised data for selected European Union countries whose economy is similar to Slovak in respect of some characteristics, e.g. GDP per capita, population etc. When determining optimum structure of euro coins we compared the structure of circulation coins in six selected euro



three transporting days in the months of October and December.

Banknotes were subsequently distributed to all NBS storage facilities to ensure their regional accessibility in the required amount and structure.

Frontloading of banks with euro banknotes commenced on 7 October and ended on 29 December 2008⁵. A total of 51 million euro banknotes worth more than EUR 950 million were delivered to 15 banks within the scope of frontloading.

NBS offered the banks transport of euro banknotes into their storage facilities subject to the fulfilment of conditions stipulated in the euro cash frontloading contract. Thus it carried out a total of 20 transports of euro banknotes (for Tatra banka, VÚB and SLSP, ČSOB and Poštová banka).

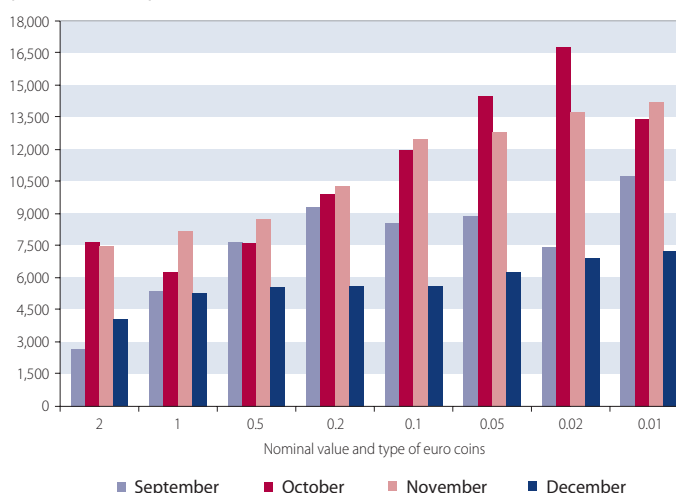
Banks were frontloaded mostly during October; € 5 and € 10 notes had the largest share of frontloaded banknotes. From the regional point of view, most euro banknotes were given out by the Teller Section, Bratislava, followed by the sub-branches in Košice and Žilina.

The share of the three largest banks (VÚB, SLSP and Tatra banka) of the total amount of frontloaded euro banknotes reached more than 80% in terms of pieces and 77% in terms of value.

FRONTLOADING WITH EURO COINS

Euro coins with a Slovak side were struck in Kremnica Mint. Slovakia was the first country among newly acceded euro area countries to have minted coins with its national side on its own territory. A total of 500 million euro coins were struck, including two commemorative coins with a nominal value of € 2, struck on the occasion of the 10th anniversary of the Economic and Monetary Union

Chart 3 Frontloading of banks with euro coins (in thousands)



Source: NBS and banks.

and the 20th anniversary of the fight for freedom and democracy.

In terms of logistics, transport and storage capacities of the NBS and banks, frontloading with euro coins was the most difficult part of the preparations. Due to these reasons, maximum allowed frontloading and sub-frontloading period was used for the frontloading with euro coins, i.e. four months from 6 September to 29 December 2008. A total of 283 million coins worth EUR 98 million (excluding starter kits) were distributed to 16 banks (all banks on the territory of the Slovak Republic providing cash services), with a total weight of almost 1,400 tonnes.

In order to facilitate the frontloading with euro coins and vacate the capacities of NBS storage fa-

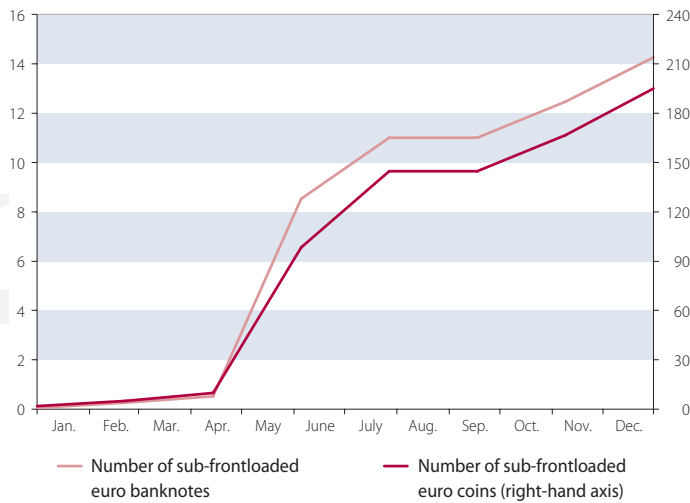
⁵ As per the ECB Guideline on frontloading, frontloading and sub-frontloading cannot take place sooner than 4 months before euro changeover.



Each transport of euro banknotes was accompanied by police cops members.



Chart 4 Sub-frontloading (in millions of pieces)



Source: NBS and banks.

ilities, a temporary sub-branch of the NBS was set up in the Kremnica Mint. This work centre provided for the frontloading of the three largest banks (VÚB, SLSP and Tatra banka) and ČSOB, which represents 85% share of the total frontloading with euro coins. 208 transports were carried out from the temporary sub-branch in Kremnica during September to December 2008, out of which 135 were directed to banks and 73 to NBS storage facilities. From the time point of view, frontloading with euro coins was distributed more evenly than that with euro banknotes; the largest volumes of euro coins were distributed to banks during October and November.

Another significant share of frontloading with euro coins is that of the Teller Section, Bratislava (25.4 million pieces, i.e. 10%); the share of other

NBS storage facilities was lower than 2%. The share of three largest banks (VÚB, SLSP and Tatra banka) of the total amount of frontloaded euro coins was ca 75% in terms of both pieces and value.

SUB-FRONTLOADING

Sub-frontloading means physical delivery of euro banknotes and coins in the required amount and structure to bank customers as per contractual terms and conditions.

A total of 14.3 million euro banknotes worth EUR 225 million and 195 million coins worth EUR 66 million were delivered to bank customers numbering almost 14 thousand, which represents one quarter of all frontloaded banknotes (two thirds of all frontloaded coins). In total, as much as 27.8% of frontloaded euro cash was used for sub-frontloading.

Compared to other new euro area members, the proportion of the value of sub-frontloaded euro cash in total frontloading was much higher in Slovakia (2.4% in Slovenia, 1% in Malta and Cyprus).

In terms of time, the process of sub-frontloading began gradually at the end of October and ended on the last permitted day – 31 December 2008.

NBS prepared a total of 1.32 million starter kits for sub-frontloading of citizens. The starter kit was a standardized product whose purpose was to make the population acquainted with the national sides of Slovak euro coins and to facilitate payments for goods and services during the first days after the euro changeover.

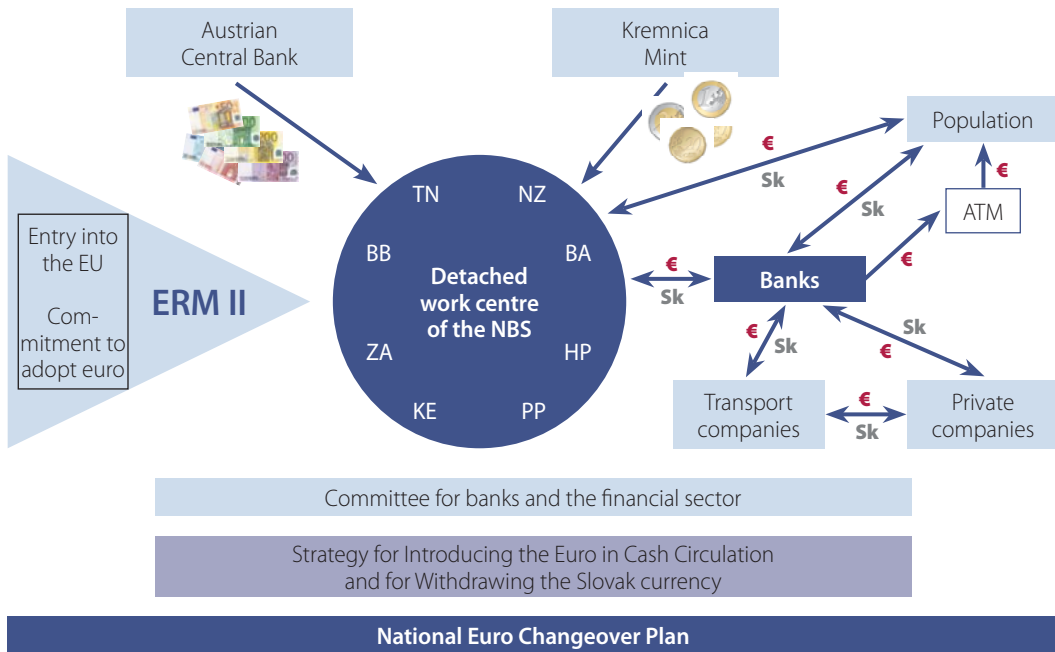
One starter kit contained 45 euro coins with a Slovak national side with the total value of € 16.60, i.e. SKK 500. Starter kits were sold in banks, Post Offices and in the NBS through December



Handling with the euro bank noted.



Introduction of euro into cash circulation



Source: NBS.

2008⁶. Massive demand for starter kits (domestic as well as foreign) already on the first day of sale forced the NBS and the banks to limit their sale⁷. All produced starter kits were sold out as of 31 December 2008.

In order to provide sufficient amount of euro cash for the population and for enterprises, some banks enabled their customers to exchange Slovak banknotes and coins for euro cash during December 2008 using the irrevocable exchange rate,

without any extra fees. This exchange was not part of frontloading because the euro banknotes and coins involved originated in other euro area countries – meaning that they were not subject to the ban on their introduction into circulation prior to the changeover date.

CONCLUSION

For most citizens, the introduction of euro into cash circulation was associated with the date of 1 January 2009. However, for the NBS and other money market entities this date marked the conclusion of preparatory activities indispensable for a smooth and hassle-free use of euro banknotes and coins on the territory of the Slovak Republic.

Frontloading and sub-frontloading were the most challenging part of preparatory activities prior to the introduction of euro into cash circulation from the point of view of logistics, capacity load of banks and the NBS, and security of euro cash transport.

In order to deliver more than 1,400 tonnes of euro coins and 51 tonnes of euro banknotes to banks and their customers within four months required an average of 2 euro cash transports per day. Due to the large number of participants in this process and their mutual connections, communication, coordination and interoperability were required virtually on a daily basis. The results of these activities were felt by everyone of us and they allowed us to become part of the 330 million people using the single European currency.

⁶ The European Commission recommends that future euro area members start selling starter kits approximately three weeks prior to euro changeover.

⁷ NBS applied a limit of 10 starter kits per person as of 2 December 2008.



Starter kits were in high demand already in the first days after their sale.



The exchange of Slovak korunas for euros and the issue of euro cash

Ing. Anna Lukáčová
National Bank of Slovakia

During the dual display period, the National Bank of Slovakia and the banks left their branches open even during weekends and holidays to do their best to meet the needs of citizens and businessmen by enabling the exchange of Slovak money for euros or Slovak money deposits on accounts. Over 1.4 million exchanges and euro cash withdrawals by means of cash desks were carried out in banks (including the NBS) during the period – four times more than during the same period in 2008. The value of exchanges and withdrawals reached more than EUR 2.2 bn.

1 This entry also includes the NBS share amounting to almost 1%.

2 The Euro Penetration Ratio = the value of euro banknotes and euro coins in circulation / the value of euro banknotes and euro coins plus the value of Slovak banknotes and Slovak coins in circulation.

Chart 1 shows the structure of exchanges and withdrawals of euro cash by banks. The item "other" includes banks, whose percentage in the total exchanges and withdrawals was less than 3%¹.

The total number of ATM withdrawals reached almost 3.5 million during the dual circulation. The value of euro banknotes issued by means of ATMs reached almost EUR 400 m., 10% more than the value of Slovak money withdrawals, converted to euros, in the same period of 2008.

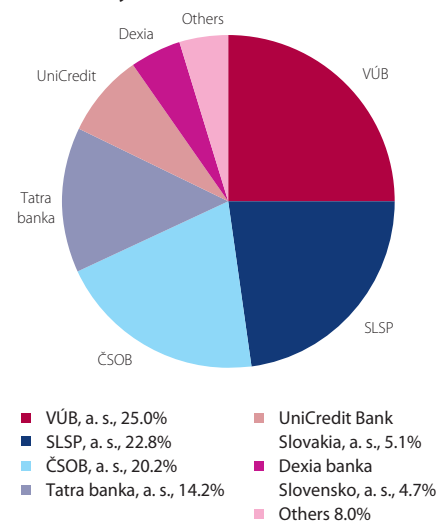
The replacement of Slovak banknotes and coins by euro banknotes and coins, as measured by the Euro Penetration Ratio², had a slower start during the first days after the euro changeover (Chart 2) as compared to the other new member euro area countries. The reason was that only two days out of the first six days of 2009 were business days and although the bank and NBS branches were opened during holidays as well, the public did not take advantage of this fact.

By the introducing the euro, the Slovak Republic has lost its autonomy in terms of currency and has become one of the euro area "regions". In this context it has to be said that since there are also euro banknotes or euro coins issued by other euro area countries in our territory, the NBS does not know the values of cash circulation in Slovakia. Out of cash circulation indicators, the NBS only records the gross issuance (euro banknotes and euro coins issued to circulation) and the net issuance (the difference between euro banknotes and euro coins issued to circulation and euro banknotes and euro coins received from the circulation).

The development of the net issuance of euro cash can be subdivided by periods:

the **1st. period** – the "D" day – the total value of the frontloading (EUR 1.071 bn) was transformed into cumulated net issuance on 1 January 2009.

Chart 1 The structure of exchanges and withdrawals by banks



Source: NBS.

the **2nd period** – the dual circulation (from 1 January 2009 to 16 January 2009) – this period was characterised by a high quantity of withdrawals and a minimal quantity of lodgements of euro banknotes and coins.

the **3rd period** – from the end of dual circulation to the end of February 2009 – there was a reverse development as compared to the dual circulation period, i.e. the lodgements of euro banknotes and coins rose significantly and their withdrawals were minimal.

the **4th period** – from the beginning of March 2009 up to the present – the lodgements are still higher than the withdrawals but the difference between the lodgements and withdrawals starts to decrease against previous periods.



DUAL CIRCULATION

The dual circulation (from 1 January to 16 January 2009) was characterised by a high demand for euro banknotes and coins on the part of banks and businessmen. Regarding the euro banknotes, a high increase in the quantity issued was reached mainly for euro banknotes of high denominations (100€ and 500€ banknotes). The clients of banks (mainly store chains) also demanded high volumes of euro coins from fear that they might serve as “exchange offices” during the dual display period.

The value of the net issuance more than doubled compared to the frontloaded cash (SKK 1.071 bn.) during the dual display period (which corresponds to an increase by almost 20 m. euro banknotes and 29 m. euro coins) and reached EUR 2.476 bn. by 16 January 2009.

THE PERIOD FROM THE END OF THE DUAL CIRCULATION TO FEBRUARY 2009

A reversal in terms of the development of the quantity of cash issued came after the end of the dual circulation – withdrawals were minimized and lodgements of the NBS started to rise.

Euro banknote lodgements exceeded euro banknote withdrawals for almost all denominations except the highest denominations (200€ and 500€) and 50€ banknotes, which are the most frequently used ATM euro banknotes. It has to be pointed out that 200€ and 500€ banknotes had not been frontloaded to banks due to their high denominations.

The growth of euro coin lodgements during this period was affected by the fact that the bank clients’ demands for secondary frontloading were considerably overestimated, so that the clients started to take a major part of euro coins away from secondary frontloading into banks and the banks brought the coins to the NBS subsequently. Euro coin lodgements were, on average, 11 times higher than withdrawals.

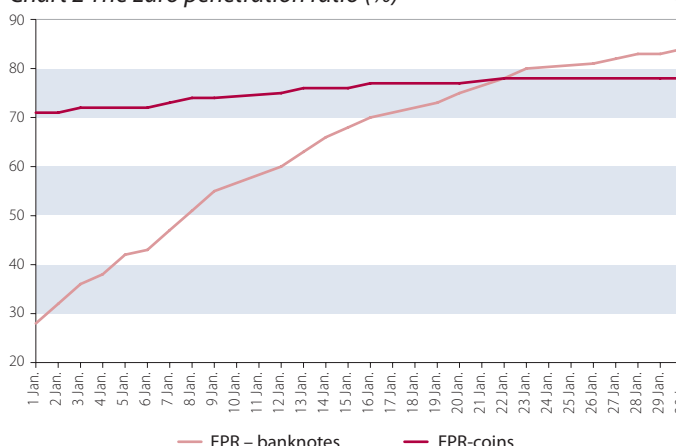
Although the total lodgements of euro banknotes and especially of euro coins at the NBS were several times higher than withdrawals, the value of the net cumulated issuance went on increasing. The increase was the result of the fact that the structure of the banknotes issued was changing in favour of 50 € banknotes and euro banknotes of the two highest denominations.

Interestingly, the value of the net issuance – converted to SKK at the conversion rate – at the end of January slightly exceeded the value of Slovak money in circulation at the end of 2008 (SKK 77.714 bn.), and the growth was still going on.

THE PERIOD FROM THE BEGINNING OF THE MARCH 2009

The issuance of euro money started to stabilize gradually at the beginning of March and the difference between the amounts of lodgements and withdrawals of euro money at the NBS started to fall compared to the previous period.

Chart 2 The Euro penetration ratio (%)



Source: ECB and the NBS.

Chart 3 The development of the cumulated net issue of euro cash and Slovak korunas in circulation (converted to euros) in 2009 (EUR m.)



Source: NBS.

On average, the lodgements were equal to or slightly lower than the withdrawals. Considerably higher withdrawals of euro banknotes compared to lodgements were recorded mainly with banknotes of the highest denominations (500€, 200€ and 100€).

The lodgements of euro coins were only three times higher compared to the withdrawals (they had been 11 times higher in the previous period).

The value of the cumulated net issuance was EUR 2.937 bn. at the end of March 2009, which represents an increase by EUR 1.866 bn. from the beginning of the year.

Chart 3 outlines the development of the net issuance of euro money from the introduction of the euro to end of the 1st quarter of 2009 in comparison with the value of Slovak korunas in circulation (converted to the euro).

The relatively high growth in the value of the net issuance from the introduction of the euro to the end of March – although the total amount of issued euro banknotes almost did not change – was due to a continuing change in the structure



of the euro banknotes issued in favour of banknotes of the highest denominations.

The total number of euro coins issued even fell by 125.5 m. against the frontloaded amount.

On average, 10 banknotes in a value of more than EUR 530 and 40 coins in a value of EUR 13.35 fell to the share of one citizen on 31 March 2009. The 50€ banknote is the most issued banknote (35% out of the banknotes issued so far). Coins with the lowest denominations (0.01€, 0.02€ and 0.05€) are the most issued coins. Their common share in the total amount of euro coins issued so far is 50%.

To conclude, we may say that the process of the introduction of the euro to the money circulation in Slovakia has been implemented successfully and without substantial problems. This has been also confirmed by the European Commission in its report called "The introduction of the euro in Slovakia". A good cooperation between the National Bank of Slovakia, the banks, the Ministry of the Interior of the Slovak Republic and other entities having participated in this process contributed most to the successful implementation.



Withdrawal of Slovak money from circulation

Ing. Milada Vlnková
National Bank of Slovakia

The process of withdrawal of Slovak money from circulation started immediately after the announcement that Slovakia met all criteria for the introduction of the euro from 1 January 2009. The circulation value started to decrease gradually in the second half of 2008 with the exception of a short-term growth in October 2008 as a result of the financial crisis, and the decrease culminated in December (a month-to-month decrease of more than SKK 50 bn.). The circulation value decreased by 44.9% to SKK 77.714 bn. year-on-year by 31 December 2008¹. 132.3 million banknotes and 628.9 million coins excluding 10 and 20 haler coins were in circulation at the above date.

Another significant decrease in the value of the circulation of Slovak money was recorded after the introduction of the euro during the dual circulation period, when SKK 45.57 bn. were withdrawn from circulation, representing 59% of the value on 31 December 2008. Over 62 million pieces of Slovak banknotes and almost 75 million pieces of Slovak coins were withdrawn from circulation during that period.

The pace of withdrawal of Slovak currency from circulation started to slow down after the dual circulation period. Over 45.5 million pieces of Slovak banknotes and almost 138 million Slovak coins were withdrawn from circulation from the end of dual circulation to the end of April 2009.

108.7 million pieces of Slovak banknotes and 217.2 million pieces of Slovak circulation coins were withdrawn from circulation from 1 January to 30 April 2009. The value of Slovak money in

circulation was SKK 6.5 billion on 30 April 2009, which corresponded to more than 23 million pieces of banknotes and more than 411 million pieces of circulation coins. Particularly banknotes and coins with the lowest denominations (11.4 million 20 SKK banknotes and 4.2 million 100 SKK banknotes, over 175 million 50 haler coins and almost 107 millions 1 SKK coins) have not been withdrawn from circulation.

Chart 1 shows the development of the value of Slovak money in circulation from the beginning of 2008 to the end of April 2009. The VÚB a. s. bank had the largest share in the withdrawal of Slovak money from circulation in that it transferred to the NBS approximately 37% of the total amount of Slovak money transferred by banks to the NBS. Chart 2 shows the structure of the withdrawal of Slovak money from circulation by the shares of banks in lodgements to the NBS.

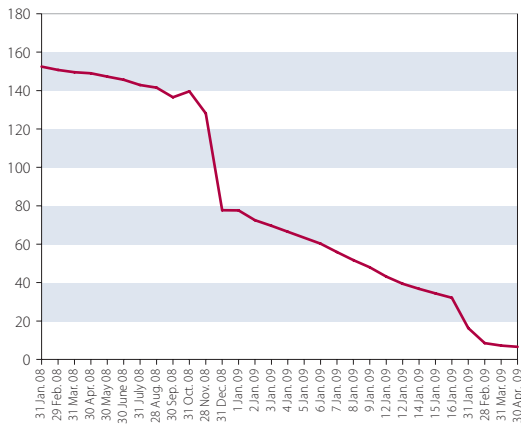
¹ On 31 December 2007, a year before the introduction of the euro, the total value of Slovak money in circulation was SKK 155.154 bn. 186.7 million pieces of banknotes and 1,163.2 million pieces of coins (including commemorative coins) were in circulation at the same date and included 491.1 million 20 and 10 haler coins whose foreclosure period ended on 31 December 2008.



Destruction of Slovak koruna and haler coins.

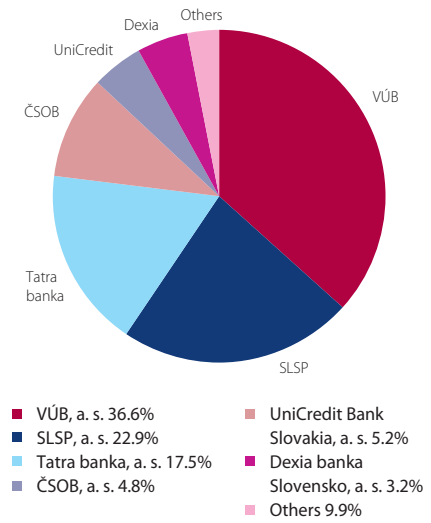


Chart 1 The development of the value of Slovak money in circulation in 2008 and 2009. (SKK bn.)



Source: NBS.

Chart 2 The structure of Slovak money lodgements to the NBS in 2009 by banks (from 1 January to 30 April 2009)



Source: NBS.

DESTRUCTION OF SLOVAK MONEY

In connection with preparations for the introduction of the euro in the Slovak Republic, the NBS started to destroy redundant stock of Slovak banknotes and coins, the amount of which was estimated by comparing the real stock at the end of the first half of 2008 and the expected requirements of cash money circulation until the end of 2008. The destruction of the redundant stock of banknotes and coins started as early as in the second half of 2008.

The National Bank of Slovakia ensured a gradual destruction of the redundant stock of Slovak banknotes in NBS processing points. The destruction of Slovak coins was performed by the National Bank of Slovakia at its field office at Mincovňa Kremnica, š.p. [Kremnica Mint, national enterprise].

More than 90 million Slovak banknotes, representing approximately 90 tonnes, and almost 73 million Slovak circulation coins, representing al-

most 378 tonnes, were destroyed in 2008. The destruction process of Slovak banknotes and coins continues even after the introduction of the euro. Over 174 million banknotes, representing approximately 174 tonnes, and almost 338 million Slovak circulation coins, representing more than 1,560 tonnes, were destroyed from 1 January 2008 to 30 April 2009 by the NBS.

Finally, it can be said that the process of withdrawal of Slovak money from circulation together with the destruction of the money has proceeded and still proceeds without noticeable problems.

The National Bank of Slovakia will continue with the destruction process during the whole year 2009 and during the years to come depending on the speed of reflux of money from the circulation until the full destruction of all Slovak money.



Destruction of Slovak banknotes.





Payment and Payment Systems

Ing. Rudolf Pataki
National Bank of Slovakia

The introduction of euro ran smooth, which is what all the efforts in the area of non-cash payments aimed at. The possibility of cash withdrawal from ATM's already in the first hours of the year 2009, the functionality of POS terminals, trouble-free Slovak koruna-to-euro conversion in bank accounts, the rapid launch of electronic banking services in the first days of 2009 as well as a smooth transition of payment systems – this is but a concise list of the most visible tasks related to the changeover to a new currency, euro.

It should be noted that in the conversion of ATM's and POS terminals the banking system required a so-called technical break during which banks had to ensure many necessary activities such as, in the case of ATM's, the conversion of card limits, verification of balances, conversion of the balance database and ATM balances, and the conversion of the respective databases in the case of POS terminals. The length of the technical break depended directly on the speed with which these activities were carried out. Since these services were readily available shortly after midnight, we feel we should point out the perfect preparedness for and the fulfilment of all set tasks.

The same can be said about electronic banking, which in particular banks was fully functional even prior to the set date (5 January 2009). Already during the first days of 2009 payments could be made via e-banking in all banks.

For a better illustration of the euro changeover we may add that at the turn of 2008 and 2009 in-

dividual banks had to perform activities related to the introduction of euro in addition to their normal activities performed every year. Here we are talking about the launch of conversion processes in all production and accounting systems, such as the conversion of accounts, bank transactions, interfaces and software applications. The total figures in Slovak commercial banks were ca 7 million customer accounts and 5 million bank transactions. Each of the larger banks had to adapt 300 to 400 interfaces and 100 applications but all of that had to be preceded by a complex data backup so as to ensure the possibility of restoration of data in Slovak koruna in case of any problems. Reconciliation had to be done after the conversion.

In this respect it should be noted that the tasks in the area of non-cash as well as cash payments in relation to the introduction of euro in the Slovak Republic were coordinated at the national level by the Working committee for banks and the financial sector under the patronage of the



Withdrawal of the eurocurrency in the NBS on 1. January 2009.



Box 1

The ATM network in the Slovak Republic was fully functional and able to discharge euro today at 2:00AM. On 31.12.2008, 99.7% out of the total 2,258 ATM's in Slovakia were functional and discharged Slovak koruna. Out of that 95% of ATM's were equipped with cartridges filled with both euro and Slovak koruna notes and a further 1% with cartridges filled with euro notes, thanks to which their conversion to euro was possible without any physical manipulation of the ATM's. Conversion of ATM's to euro was executed gradually from 9:00PM on 31.12.2008 to 2:00AM on 1 January 2009.

28% of ATM's were fully functional and able to discharge euro one minute after the midnight of 1 January 2009, 80% of ATM's were converted by 0:30AM and 94% of ATM's by 2:00 AM. By 8:00AM 96% ATM's were converted and able to discharge euro.

Similarly, the POS terminal network has been fully functional and working in a standard mode as of 2:00 AM this morning. There are 32,107 payment terminals in Slovakia and domestic banks have issued 5.2 million payment cards, which citizens may use to make payments in euro or to withdraw cash.

Bank customers may use a section of the banks' branch network through 1st to 4th January 2009 especially for cash exchange of koruna to euro. 45% out of the total 1,054 bank branches were open for business on 1 January 2009 and 32% of branches will be open throughout the weekend of 3rd to 4th January 2009 (2nd January is a usual business day and branches will be open in their standard hours).

Taken from a press release of the NBS of 1 January 2009.

¹ ECB press release of 19.12.2008 on the updating of the list of acceptable securities settlement systems in the euro area.

Národná banka Slovenska. The Committee was established in 2005 and its function was to carry out tasks required by the National Euro Changeover Plan in the above areas, which were essential for a smooth and successful euro changeover.

EVALUATION OF SECURITIES SETTLEMENT SYSTEMS

One of the requirements of the European Central Bank in relation to the adoption of the single currency in Slovakia was the execution of a Securities settlement system (SSS) assessment against the *Standards for the use of EU securities settlement systems in ESCB credit operations*. ECB stipulated a formal procedure pertaining to the performance of this assessment, in which Národná banka Slovenska was in the position of a coordinator in relation to domestic securities settlement systems as well as of the first assessor. The function of the second assessor was carried out by Banca d'Italia.

The object of assessment within the Slovak Republic was the Central Securities Depository (CSD). Upon approval by the ECB Governing Council, CSD was assessed as "compliant" from the viewpoint of criteria for its use in Eurosystem credit operations and at the same time it was included in the list of acceptable securities settlement systems for Eurosystem credit operations¹.

THE CONCEPT OF INTERBANK PAYMENT SYSTEM AFTER THE EURO CHANGEOVER

For the execution of non-cash payments it is essential that payment system infrastructure is smooth and efficient.

The Banking Board of the NBS adopted in December 2006 a payment system strategy related to the euro changeover, with its key element being the connection of the NBS and of the banking community to the TARGET2 payment system. Slovakia's connection to the TARGET2 system

was one of the conditions for the introduction of euro in the Slovak Republic as the execution of monetary policy operations through this system is mandatory. Preparation for the strategy and procedures for the connection process began already in 2005 with the declaration of the Governor of the NBS on the connection to the TARGET2 system no later than at the time of euro changeover in Slovakia. The chosen strategy of transformation of the Slovak payment infrastructure was also backed by the Slovak banking community which obliged itself to join the TARGET2 system and to use the future retail system EURO SIPS.

The change in the concept of the Slovak interbank payment system was part of the tasks included in the National Euro Changeover Plan in the Slovak Republic and due to the adoption of euro, the SIPS payment system was preparing itself for transformation from a sole domestic interbank payment system to a so-called ancillary system to the trans-European payment system TARGET2.

The payment system strategy comprised the following pillars:

1. The exclusion of the RTGS (real time gross settlement) functionality from the existing SIPS payment system. The RTGS functionality within the SIPS payment system was fully replaced by the TARGET2 system, which has thus become the sole RTGS system in Slovakia as of 1.1.2009. In the same way, the provision of intraday credit was transferred from the SIPS payment system to TARGET2.
2. Preservation of a single RTGS settlement account. An account created by a credit institution in the SIPS payment system was the only account for the settlement of monetary policy operations, other RTGS transactions, and its end balance represented the fulfilment of minimum reserve requirements pertaining to particular



- credit institutions. The settlement account is currently open in the payment module of the single shared platform (SSP) within TARGET2. The TARGET2 account furthermore provides coverage of particular banks' cash transactions.
3. Connection of Slovak Republic to TARGET2 using the "big bang" method. All relevant entities joined TARGET2 on the same date as was the euro changeover date. No interim period was set after this date, during which RTGS payments for Slovak entities would be settled in other systems than TARGET2 (such as the SIPS).
 4. The creation of the EURO SIPS system. A new clearing system was created with the aim to preserve the payment system for the handling and clearing of low-value payments in the Slovak Republic and the results of this system are ultimately and irrevocably settled in TARGET2. Thus EURO SIPS became an ancillary system to TARGET2.

TARGET2 PAYMENT SYSTEM

TARGET2 is the joint payment system of the Eurosystem based on a single technical platform SSP. TARGET2 component in the Slovak Republic is called TARGET2-SK. The SSP is based on a payment module carrying out real-time gross settlement. This means that a payment order is settled in sender's and receiver's accounts instantly and irrevocably after it was entered in the system. Payment orders are settled one by one, with no mutual inclusions. Settlement is done using central bank money, which makes such systems suitable for the execution of important large-value payments with the emphasis on security, reliability and smoothness of settlement.

The TARGET2 system:

- caters to the needs of the execution of monetary policy within the Eurosystem,
- provides a reliable and safe payments settlement mechanism on the basis of RTGS,
- increases the efficiency of payments.

Along with its basic purpose described above, TARGET2 can also be used to settle payments of any value or importance where it is necessary that they are settled on the basis of RTGS in central bank money. In general, TARGET2 is intended for the settlement of cross-border as well as domestic payments.

Národná banka Slovenska commenced the coordination of an intense preparation of the banking sector for the connection to TARGET2 in September 2007 with the introduction of a detailed plan including the necessary analyses of processes on the part of banks and future ancillary systems (EURO SIPS, Central Securities Depository, First Data Slovakia). In November 2007 the Banking Board of the NBS approved a project of connecting the NBS and the Slovak banking sector to TARGET2. In the course of 2008, this project provided top patronage to personnel, organizational, technical and legal changes required by the preparation for the connection. The main objective of this project was to analyse intrabank processes of

the NBS that would be affected by the connection to TARGET2, to prepare a plan of necessary changes and amendments to existing processes, and to prepare and carry out the plan of connection of the NBS and the banking sector (registration in SWIFT services, registration in the TARGET2 testing environment, three testing phases, registration in the production environment and finally the transition and the commencement of normal operation).

All throughout 2008 NBS communicated intensely with the representatives of future TARGET2-SK participants. In March 2008 was prepared for participants the information necessary for the registration in SWIFT services for TARGET2 and for the registration in the testing environment. Also were organized trainings in the use of the Information and Control Module where almost 200 TARGET2 users from banks and ancillary systems were trained.

In April 2008 a meeting of the representatives of the European Central Bank and of the SSP operator took place in the NBS and, among other things, it confirmed the possibility of commencement of TARGET2 testing as per the schedule. During April 2008 all participants were registered in the TARGET2 testing environment and the testing of participants commenced on 5 May 2008.

The testing itself took place in three stages – connection test, interoperability testing and country testing. The first two stages ran simultaneously and they represented individual testing of particular participants who had to execute the prescribed mandatory and voluntary testing scenarios. The last stage that took place during September and October represented a complex simulation of operation days with the inclusion of all banks and ancillary systems as well as non-standard situation tests. Testing was successful, all participants met the technical and operational requirements for proper operation.

In the course of November and December participants were registered in the production environment of TARGET2 and from the technical point of view, the production operation was fully ready to launch. At the same time, the preparation of legislative prerequisites of the connection of the NBS and the banking sector to TARGET2 was coming to a close during this period.

The ECB Governing Council discussed on 9 December 2008 the draft Decree of the NBS No. 9/2008 on the conditions for the participation in TARGET2-SK, by which harmonized requirements for the participation in TARGET2-SK were taken over by the NBS. December 2008 also saw the conclusion of contracts pertaining to the participation in TARGET2 between the NBS as the operator and all the system participants.

Národná banka Slovenska as well as banks and ancillary systems confirmed at the end of 2008 their readiness for the commencement of proper operation and the entire process of connection to the TARGET2 system was concluded by a successful transfer of koruna-denominated bank ac-



count balances in the SIPS system to TARGET2-SK accounts denominated in euro.

PAYMENT SYSTEM EURO SIPS

Prior to the introduction of euro, SIPS was the sole interbank payment system in the Slovak Republic. In relation to the planned euro changeover, NBS commenced preparations for the transformation of the SIPS payment system to EURO SIPS. Within the framework of entering the euro area, EURO SIPS was implemented as a domestic multilateral net settlement system for retail payments. The system does not require immediate finality as it processes retail payments of a small value with low priority. Received payments are processed in technical accounts during the accounting day, whilst the final settlement of payments is done through RTGS accounts in TARGET2. Data transfer between EURO SIPS and TARGET2 is carried out by means of information transfer in the defined structure through the SWIFT-Net network. Národná banka Slovenska remained the operator of EURO SIPS.

The aim of the adaptation of SIPS to the ancillary payment system EURO SIPS was to change the existing interbank payment system so that it:

- complied with the requirements applying to ancillary systems to TARGET2,
- carried out the same function as was carried out by SIPS,
- replaced the monetary unit Slovak koruna with the monetary unit euro as of 1 January 2009,
- carried out processing and multilateral clearing of low-value domestic payments (retail system) with the settlement of clearing results of these domestic transactions in TARGET2-SK,
- maintained a price level compatible with SIPS

Since SIPS was not supposed to operate in a dual mode in the last quarter of 2008 but to be replaced directly by the new system EURO SIPS on the last day of the year, the project of transformation of SIPS was divided into two stages.

In order to ensure stabilization of the system operation even prior to the introduction of euro, the first stage was concerned with the implementation and launching of the updated payment system SIPS with the Slovak koruna currency but with the in-built functionality and parameters of the future EURO-SIPS system. The transformed SIPS for the introduction of euro was implemented in Národná banka Slovenska and in all interbank payment system participants as of 1 September 2008, making the system ready for parameterization to the ancillary system EURO SIPS and the changeover of Slovak koruna to euro. This was to be done on 31 December 2008 after the closing of the last day of SIPS operation.

In the second stage, connection of EURO SIPS to TARGET2-SK using the services of S.W.I.F.T. was tested so as to ensure that the parameters and security functions of the infrastructure and data transfer between EURO SIPS and TARGET2-SK had been set correctly. After the successful completion of the connection test, the operational interoperability of EURO SIPS as an ancillary system to TARGET2-SK was tested in line with the Eurosystem requirements. EURO SIPS took part in country testing as one of the future TARGET2-SK participants and it completed the prescribed tests on due dates. The actual transition of SIPS to the operation of the ancillary system EURO SIPS with changes in the parameters and its operation to the euro currency was tested simultaneously.

At the same time, contractual agenda with the future EURO SIPS participants was carried out. In relation to the change in the functionality of the payment system, the position of some participants in the existing payment system changed as of 1 January 2009. Three of them were transformed into two ancillary systems to TARGET2-SK and two participants chose to settle payments through other entities. Hence as of 1 January 2009, 27 entities have become active participants in the payment system EURO SIPS.

In accord with valid regulations, EURO SIPS opened its first operational day as an ancillary system to TARGET2-SK in the euro currency as of 31 December 2008. The opening went smooth and within set deadlines, in line with the valid schedule of this system.

In respect of the changes in the domestic payment system SIPS and the connection to TARGET2 as of 1 January due to the introduction of euro in the Slovak Republic, a direct amendment to the Act on the Payment System (Act No. 270/2008 Coll.) was adopted in 2008.

The introduction of euro was a test of mutual coordination and interoperability of all stakeholders participating in this process. We may conclude by saying that the entire euro changeover process came to a very positive end and ran smoothly and hassle-free. The area of non-cash payments, however, is often referred to as one where changes and innovations are incessant. Thus the Národná banka Slovenska as well as the banking sector acknowledge, in line with what has been said, that although the introduction of euro may be labelled as a consummation of an important stage with a beautiful finish, they are facing yet another large project and challenge in the area of non-cash payments – the implementation of SEPA (*single euro payment area*) payment instruments.



Integration of the NBS into the Eurosystem

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The process of integration of the National Bank of Slovakia into the Eurosystem started already during the preparation of Slovakia's accession to the European Union. From Slovakia's accession to the EU, particularly the Act on the National Bank of Slovakia No. 566/1992 Coll. as amended (hereinafter referred to as the "NBS Act") was gradually amended with the aim of integrating the National Bank of Slovakia into the Eurosystem.

The following main requirements had to be taken into account for the integration of the National Bank of Slovakia (hereinafter referred to as the "NBS") into the Eurosystem in the process of preparations for the adoption of the euro in the Slovak Republic:

1. full guarantee of the independence of the NBS according to Article 108 of the Treaty establishing the European Community as amended (OJ C 321 E, 29.12.2006) (hereinafter referred to as the "EC Treaty") and Articles 7 and 14.2 of Protocol No. 18 on the Statute of the European System of Central Banks and of the European Central Bank attached to the EC Treaty (hereinafter referred to as the "ESCB Statute") and the related professional secrecy requirement under Article 38 of the ESCB Statute,
2. compliance with the prohibition of monetary financing under Article 101 of the EC Treaty and of privileged access under Article 102 of the EC Treaty,
3. ensuring the issue of euro banknotes and euro coins under Article 106 of the EC Treaty,
4. respecting the competence and powers of the European Central Bank and other institutions and bodies of the EU at the international level pursuant to Article 111 of the EC Treaty and Article 6 of the ESCB Statute,
5. ensuring compatibility of national legislation with the EC Treaty and the ESCB Statute,
6. fulfillment of NBS' duty to consult under Article 105 (4) of the EC Treaty and Article 4 of the ESCB Statute.

To adopt the euro, it is not enough to fulfill the financial or economic convergence criteria, legal criteria have to be met too. The requirement of compatibility of national legislation of each Member State, including the legal act regulating the position and activity of the national central bank, with Articles 108 and 109 of the EC Treaty and the ESCB Statute results from Article 121 (1) of the EC Treaty.

The above mentioned "legal requirements" were incorporated mainly in the NBS Act, which together with the Constitution of the Slovak Republic constitute the basic legal documents

regulating the position and activities of the NBS. The last step towards total legal integration of the NBS into the Eurosystem was an amendment of the NBS Act implemented in the form of Act No. 569/2007 Coll. on the introduction of the euro in the Slovak Republic and on the amendment of certain acts as amended. The procedure was in line with the National Euro Changeover Plan, according to which "legislative needs of general nature shall be regulated by the Umbrella Law (Act on some measures related to the introduction of the euro)".

Within a complex process of approval in 2007, the Ministry of Finance of the Slovak Republic asked the European Central Bank to set up an opinion with respect to the draft law on the introduction of the euro in the Slovak Republic and on amendments of certain acts, which had been drawn up by the NBS in cooperation with the MF SR. After taking into account the opinion of the European Central Bank No. CON/2007/43, as well as the Convergence Report of 2007, the National Bank of Slovakia adopted the act on the introduction of the euro in the Slovak Republic and on the amendment of certain acts on 28 November 2007. Some provisions of the Act on the introduction of the euro in the Slovak Republic became effective on 1 January 2008. Further key provisions became effective on the day of the introduction of the euro in Slovakia, i.e. 1 January 2009.

Relevant legal aspects of some national central banks of countries, which were already members of the euro area, such as Belgium, Greece, Ireland, Portugal, Austria and Spain, were taken into account when the draft amendment of the NBS Act was prepared.

The need of a closer explanation of Article 109 of the EC Treaty, which demands compatibility of national legislation with the EC Treaty and the ESCB Statute, arose in the process of legal integration of the NBS into the Eurosystem. The "compatibility" requirement does not mean absolute harmonization of the statutes of national central banks among the national banks or with the ESCB Statute, because Article 14.4 of the ESCB Statute enables that the national central banks perform



1 OJ L 189, 3.7.1998, p. 0042-0043, Special Edition of the Official Journal, Ch. 10/Vol. 01, corrigendum OJ L324, 29.8.2006.

2 This is without prejudice to the right of the NBS to set and publish foreign exchange reference rates of the euro against such other currencies, which are actively traded or otherwise used in the Slovak Republic and for which the European Central Bank does not set and publish a foreign exchange reference rate.

also other functions than those specified in the ESCB Statute, unless the Governing Council finds, by a majority of two thirds of the votes cast, that they interfere with the objectives and tasks of the European System of Central Banks (hereinafter referred to as the „ESCB“). Such functions are performed on the responsibility and liability of national central banks and are not regarded as being part of the functions of the ESCB. Then the term „compatibility“ can be interpreted in such a way that it is necessary to adjust Slovak legislation and particularly the NBS Act so as to eliminate their incompatibility with the EC Treaty and the ESCB Statute. The necessary degree of integration of the NBS into the ESCB is also expected in the process. All the provisions contravening the requirement of independence of the NBS and its activities as an integral part of the ESCB shall be the first to be adjusted. Precedence of the European Community law does not influence the duty to adapt national legislation. Neither the EC Treaty, nor the ESCB Statute prescribes how Slovak legislation is supposed to be adjusted. „Compatibility“ can be achieved using various techniques or methods, e.g. references, omissions of incompatible provisions or a combination of such procedures. One of the crucial instruments not only for achieving compatibility, but also for maintaining it, is the duty of the Slovak Republic to consult the European Central Bank on each draft legislative provision in its fields of competence under Article 105 paragraph 4 of the EC Treaty, Article 4 of the ESCB Statute and Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions¹. According to the above mentioned decision, each member state, including Slovakia, shall take the necessary measures to ensure effective compliance therewith.

Regarding the independence of the NBS, which can be subdivided into personal, functional, institutional and financial independence, the NBS Act has been adjusted by the Act on the introduction of the euro in the Slovak Republic in the field of personal independence. According to the new text of Article 7 paragraph 9 of the NBS Act, a member of the Bank Board may only be removed from his/her office if he/she no longer fulfils the conditions required for the performance of his duties or if he/she has been guilty of serious misconduct committed in the discharge of his/her office pursuant to Article 14.2 of the ESCB Statute. Compatibility in terms of personal independence has been explicitly achieved by this. Article 7 paragraph 10 of the NBS Act, under which the Governor of the NBS can have recourse to the Court of Justice of the European Communities pursuant to Article 14.2 of the ESCB Statute, was also modified. Other requirements related to various aspects of independence were fulfilled already in the previous amendments of the NBS Act.

The prohibition of monetary financing under Article 101 of the EC Treaty and the prohibition of privileged access under Article 102 of the EC

Treaty has been explicitly incorporated in Article 19 of the NBS Act.

The provisions of Article 24 paragraph 3 of the NBS Act and Article 13 paragraph 2 of Act No. 118/1996 Coll. on deposit protection and on amendments of certain acts as amended, which regulate the granting of loans to the Slovak Deposit Protection Fund by the NBS, were not in line with the monetary financing prohibition under Article 101 (1) of the EC Treaty prior to the adoption of the amendment of the NBS Act. The amendment of the NBS Act replaces the original Article 24 paragraph 3 by a new Article 24 paragraph 2, which stipulates that the NBS can grant a short-term loan to the Deposit Protection Fund or the Investment Guarantee Fund to cover the fund's urgent and unforeseen needs for supply of liquidity, if aspects of systemic stability are threatened and if this is in compliance with the prohibition of monetary financing as regulated in the EC Treaty. Any such loan must be secured by sufficient collateral in the form of securities or other asset values. The amendment of the NBS Act also amends Article 13 paragraph 2 of Act No. 118/1996 Coll. on deposit protection and Article 91 paragraph 3 of Act No. 566/2001 Coll. on securities and investment services and on amendments of certain acts as amended; this has explicitly ensured compliance with the prohibition of monetary financing under the EC Treaty.

The amendment of the NBS Act has re-regulated objectives of the NBS related to economic policy. Article 2 paragraph 2 of the NBS Act stipulates for the purpose of accomplishing its main objective (maintaining price stability) that the NBS also performs the authority, activities, tasks, rights and obligations following from its participation and objectives in the ESCB. In doing this, the NBS, as a member of the ESCB, proceeds in accordance with the rules governing the ESCB, and as a member of the Eurosystem as from the euro introduction date it also proceeds in accordance with the rules applicable only to the Eurosystem. At the same time, the new Article 41a paragraph 1 was inserted into the text of the NBS Act. Under the new paragraph, as from the euro introduction date, the NBS supports the general economic policies in the European Community, without detriment to its main objective, which is maintaining price stability. It thereby contributes to the achievement of the objectives of the European Community as expressed in Article 105 of the EC Treaty and in Article 2 of the ESCB Statute. Article 43 of the ESCB Statute implies that from the day of the introduction of the euro, the NBS, as a member of the Eurosystem, shall act in accordance with the rules specified in the ESCB Statute, which are applied only to the Eurosystem.

As for monetary policy, the originally applicable provisions of the NBS Act have not granted powers to the European Central Bank in this field. The amendment of the NBS Act has modified the respective text of the provisions of the act, i.e. it inserted Article 6 paragraph 3, under which the



NBS Bank Board shall, in exercising its powers and competences, respect rules applicable to the ESCB and, as from the euro introduction date, also rules applicable to the Eurosystem. This implies that in exercising its powers in the field of monetary policy, the NBS has to proceed in line with the said provision. With the aim of granting powers in the area of monetary policy, the text of Article 3 of the NBS Act has been also altered. Pursuant to paragraph 2 of that provision, the NBS shall publish information and reports of the European Central Bank on the ESCB and on common European monetary policy; in doing so, it shall proceed according to the rules applicable to the ESCB. This text represents harmonization with Article 15 of the ESCB Statute. Furthermore, the new provisions of Article 49 ab paragraph 6 were inserted, under which as from the day of the introduction of the euro in the Slovak Republic the exclusive power to set monetary policy and monetary policy instruments, and the exclusive power to license the issue of banknotes and to approve the volume of issue of coins shall pass from the NBS to the European Central Bank. The exclusive power to set exchange rate policy shall pass from the NBS to the competent institutions and bodies of the European Union². Based on the said provision of the NBS Act, the power to set monetary policy and monetary policy instruments has passed from the NBS to the European Central Bank. Articles 18, 21, 23, 24 and 27 of the NBS Act, which regulated the imposition of sanctions, acquisition or sale of debt instruments, granting of loans and other NBS operations, have been altered in this connection so as to grant powers to the European Central Bank in this field. The amended NBS Act has also introduced a new text of Article 20, by virtue of which the NBS, pursuant to rules applicable to the Eurosystem, performs activities related with the determination and maintenance of minimum reserves under a separate piece of legislation (e.g. in accordance with Articles 9.2, 12.1, 14.3, 19, 20 and 42 of the ESCB Statute).

The amendment of the NBS Act also concerns the collection, processing and distribution of statistical data including requirements for their reporting, because the original wording of the NBS Act had not granted powers to the European Central Bank in this field. Article 34a of the NBS Act has been amended so as to grant powers to the European Central Bank in this field in line with Article 5 of the ESCB Statute and Council Regulation (EC) No. 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank (OJ Special Edition, Ch. 01/vol. 03).

Moreover, Article 28 of the NBS Act has been altered so as to grant powers to the European Central Bank in the area of administration of foreign exchange reserves in accordance with the ESCB Statute. By virtue of that provision, the NBS holds and manages foreign exchange reserves in gold and in foreign exchange assets, handles the same and performs foreign exchange operations, and

as from the euro introduction date it proceeds in accordance with the ESCB Statute (e.g. Articles 23 and 31) in performing operations within the Eurosystem.

According to the first and second sentence of Article 106 (1) of the EC Treaty, the European Central Bank has the exclusive right to authorize the issue of banknotes within the European Community. The European Central Bank and the national central banks may issue such notes. Furthermore, under the first sentence of Article 106 (2) of the EC Treaty, the Member States may issue coins subject to approval by the European Central Bank of the volume of the issue. The original provisions of Article 2 paragraph 1 b), Article 6 paragraph 2 e), Articles 15 and 16 paragraph 1 of the NBS Act (regulating the competence of the NBS in the field of the issue of banknotes and coins) had not respected the above mentioned exclusive right of the European Central Bank to authorize the issue of banknotes in the euro area. Consequently they had to be replaced by the new provisions of Article 2 paragraph 1 b), Article 6 paragraph 2 e), Article 15 and Article 16, Article 17 and 17a and 17h of the NBS Act, which in conjunction with the new Article 49ab paragraph 6 of the act stipulate that as from the day of the introduction of the euro in Slovakia, the exclusive power to authorize the issue of banknotes and to approve the volume of the issue of coins belongs only to the European Central Bank. Those provisions fully grant the exclusive right in this field to the European Central Bank in accordance with the EC Treaty and the ESCB Statute.

The amendment of the NBS Act repealed the original wording of Article 39, based on which the Supreme Audit Office of the Slovak Republic used to appoint an independent external auditor for the NBS, and replaced it with the new Article 38 paragraph 2, which, in conjunction with Article 24b of Act 39/1993 Coll. on the Supreme Audit Office as amended, grants powers pursuant to Article 27.1 of the ESCB Statute to the Council of the EU and the European Central Bank (accounts of the European Central Bank and national central banks are audited by independent external auditors recommended by the Governing Council of the European Central Bank and approved by the Council of the EU).

Pursuant to Article 26 of the Statute, the NBS is obliged to comply with the regime of financial reporting of the operations of national central banks applied in the Eurosystem. However, the original provision of Article 39 paragraph 1 of the NBS Act had not contained this obligation. The new Article 38 of the act was adopted, which in conjunction with Article 17b of Act No. 431/2002 Coll. on accounting as amended regulates all the necessary duties of the NBS related to financial accounts under Article 26 of the Statute from the euro introduction date onwards.

In accordance with Article 111 of the EC Treaty and Article 12.1 of the ESCB Statute, the original provision of Article 28 a) of the NBS Act has been



replaced by the new provisions 28 paragraph 2 and 49ab paragraph 6 of the act, which regulate the powers of the NBS in the area of exchange rate policy and respect the powers of the Council of the EU and European Central Bank in this field.

The original Article 4 paragraph 1 and 2 of the NBS Act (representation of Slovakia by the NBS in international financial institutions in the field of the financial market and in operations in international financial markets based on an authorization by the Government of the Slovak Republic) had not granted powers in this field to the European Central Bank with respect to the implementation of monetary policy of the European Community. That is why Article 4 paragraph 2 of the NBS Act has been altered (pursuant to the paragraph, the NBS can represent Slovakia in operations on international financial markets) and at the same time a provision was added to the said article to guarantee the inviolability of the competence and power of the European Central Bank and other institutions and bodies of the EU at the international level.

The amendment of the NBS Act has also added a provision to Article 13 paragraph 1, which deals with the duty to consult the European Central Bank, and added a new paragraph 3 to Article 30, which takes into account the duty to consult draft legislative provisions with the European Central Bank in matters falling within its competence according to a decision of the Council 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions.

In the interests of the integration of the NBS into the Eurosystem, the NBS Act was also altered in Article 2 paragraph 1 c) so that the NBS, in conjunction with Article 31 of that act and in accordance with Article 22 of the ESCB Statute, supports the smooth functioning of payment systems and settlement systems. To ensure a smooth transition of the NBS to the new Trans-European Automated Real-time Gross Settlement Express Transfer System (TARGET2), the new act No. 270/2009 Coll. amending Act No. 510/2002 Coll. on the payment system transactions and on amendments of certain acts as amended was adopted.



Participation of the NBS in Eurosystem activities

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The relationship between the National Bank of Slovakia and the European Central Bank, as well as other national central banks of the euro area, reached a new qualitative level by the integration of the NBS into the Eurosystem on 1 January 2009. On the one hand, the NBS relinquished some of its powers, particularly in the field of independent monetary policy of Slovakia, on the other hand, the NBS gained the possibility to take part in the control of monetary policy and other policies for the whole euro area by its involvement in the activities and decision-making process of the Eurosystem. This takes place at several levels: it mainly applies to the NBS Governor, who has become a member of the Governing Council of the ECB; it then includes the representatives of the NBS in Eurosystem/ESCB committees and their working groups, as well as other experts of the NBS.

THE IMPORTANCE OF THE INTEGRATION OF THE NBS INTO THE EUROSISTEM

Many activities performed by the NBS have gained a new dimension by NBS' integration into the Eurosystem. Most of all, on 1 January 2009, the NBS stopped being active as the monetary authority of Slovakia. The scope of activities of the NBS was expanded to include the whole euro area, i.e. the analysis of the development of the macroeconomic environment and financial markets, as well as other activities related for example to the issue of bank notes or payment systems, cover all the sixteen countries having adopted the euro. The NBS gained the possibility to participate in the

activities of the Eurosystem above all in the area of monetary policy, but also in foreign exchange management, issuing activities and payment systems.

The position of the NBS in the Eurosystem is derived from its share in the subscribed capital of the ECB which the NBS fully paid off as at 1 January 2009. The share is measured by means of a capital key, which is determined based on the weighted share of the member states in the total population and in the gross domestic product of the EU. In the case of the NBS, the capital key is 0.6934 %. It is used to determine the share in the profits and losses of the Eurosystem, the share in



A meeting of the Governing Council at the seat of the ECB in Frankfurt am Main.



1 Trans-European Automated
Real-time Gross Settlement Express
Transfer System

the monetary income, the share of the NCBs in the Eurosystem foreign exchange reserves, the share in the issue of banknotes and the weight of the vote of the Governor in selected areas of decision making in the Governing Council.

The Governing Council decides on monetary policy for the entire euro area, i.e. from 1 January 2009 also for Slovakia. This includes the setting of the level of the key interest rates of the ECB or the definition of the framework for the performance of monetary policy, for example by means of the General documentation on Eurosystem monetary policy instruments and procedures. Thanks to the principle of decentralized performance of Eurosystem tasks, the NBS continues to perform monetary policy operations. The Monetary Policy Committee and the Market Operations Committee play an important advisory role in the process.

A part of the foreign exchange reserves of the NBS in USD and in gold was transferred to the ECB as at 1 January 2009. The amount was calculated based on the capital key. The NBS continues to manage those foreign exchange reserves and in doing so it follows framework decisions of the Governing Council. The main advisory body in this field is the Market Operations Committee.

Other changes took place with respect to banknotes and coins. By the introduction of the euro in Slovakia, powers in the area of banknotes issuance were transferred to the Governing Council and in the area of coins issuance to the European Commission. For banknotes, this applies for example to the volume of the banknotes to be issued or their design. Guidelines of the ECB also regulate the circulation of money. The Banknote Committee plays an important role in this context.

The field of payment and settlement systems has also changed considerably. The NBS operates payment and settlement systems in the territory of Slovakia and oversees their functioning. From 1 January 2009, it ensures connection to the TARGET2¹ system, controlled at the highest level by the Governing Council, for Slovak participants. The Payment and Settlement Systems Committee works as an advisory body in all issues related to the TARGET2 system and performs all tasks set for it by the Governing Council.

In addition to the said areas, the NBS continues to fulfill several tasks, which are not in the competence of the Eurosystem, particularly financial market supervision, where the ESCB only contributes to a smooth implementation of policies adopted at the national level.

NEW TASKS OF THE GOVERNOR AND THE NBS

Ivan Šramko, the Governor of the NBS, became a full-fledged member of the supreme decision-making body of the ECB and the Eurosystem – the Governing Council as of 1 January 2009. He thereby assumed full responsibility for monetary policy of the euro area. His alternate is Peter Ševčovič, a

member of the NBS Bank Board and the Executive Director for Monetary Area.

The extent of duties related to the ECB, as well as the importance of the adopted decisions, increased adequately to the new position of the NBS Governor. Before the decision on his membership in the Governing Council, the Governor was a member of the General Council. In addition to the four regular General Council meetings each year, the Governor also participates in meetings of the Governing Council two times a month from July 2008. The Governor first participated in meetings of the Governing Council as an observer, from 1 January 2009 as a full-fledged member. He can be accompanied by one person, usually his alternate, at the meetings.

In terms of preparation, the decision-making of the Governing Council involves two forms of adopted decisions. Above all, there are decisions discussed at meetings of the Governing Council. In connection with the meetings of the Governing Council, the underlying documentation for these decisions is sent with a two-week periodicity. The second area are draft decisions, which for lack of time or due to their purely technical nature are not included in the agenda of the meeting, but are adopted in the form of written procedures. In addition to the preparation of the underlying documentation for meetings of the General Council, membership of the Governor of the NBS in the General Council includes the drawing up of comments to the ECB opinions within consultations of national legislation or Community legislation falling within the competence of the ECB.

An important role in the preparation of decisions of the Governing Council is played by representatives of the NBS in the Eurosystem/ESCB committees and their working groups. In most cases, the representatives in the committees are NBS managers and, in the working groups, the representatives are experts from professional units. Their competence has been extended, similarly to the competence of the NBS governor. Eurosystem/ESCB committees can meet in an extended composition, i.e. with representatives of all NCB countries of the EU, or in the standard composition, in which there are only representatives of the NCB of the Eurosystem. Crucial issues in the competence of the committee are discussed in the standard composition. The Governing Council adopts the final decision on issues discussed at the expert level of the committees.

NBS representatives currently take part in meetings of Eurosystem committees in the standard composition. New representatives were also nominated to the committees which meet exclusively in the standard composition and in which the NBS had no representatives prior to July 2008. It is the Budget Committee, the Committee on Cost Methodology and the Eurosystem Steering Committee on Information Technology. The NBS has currently a total of some 70 representatives in Eurosystem/ESCB committees and their working groups.



Box 1

The ESCB, Eurosystem and the ECB

The European System of Central Banks (ESCB) is made up of all 27 National Central Banks (NCBs) of the European Union and the ECB. The tasks of the ESCB are defined in the Treaty establishing the European Community and stated more precisely in the Protocol on the Statute of the ESCB and of the ECB.

The main objective of the ESCB is to maintain price stability. Its main tasks are as follows:

- to define and implement the monetary policy of the Community
- to conduct foreign-exchange operations
- to hold and manage the official foreign reserves of the Member States
- to promote the smooth operation of payment systems

Until all EU member states adopt the euro, the tasks of the ESCB will fall within the competence of the Eurosystem². The Eurosystem is made up of countries of the euro area, i.e. countries, which have adopted the euro as a common currency, and the ECB. The tasks of the Eurosystem fall under the umbrella of the ECB. The decision-making bodies of the ECB are also the decision-making bodies of the Eurosystem and the ESCB. These are the Governing Council, the Executive Board and the General Council.

The **Governing Council** is the main decision-making body of the Eurosystem and is made up of all six members of the Executive Board and all governors of the NCBs of euro area countries. The governors in it act as independent experts. The Governing Council adopts legal acts and decisions necessary to ensure tasks of the Eurosystem. Except selected areas, each member of the Governing Council has one vote, and decisions are adopted by absolute majority. A two-third vote is used for decisions on selected issues of the rules of procedure, the use of other monetary policy instruments or decisions on the inconsistency of a certain activity of a NCB with tasks of the Eurosystem. Weighted voting is used for decisions on the capital, foreign exchange reserves, the distribution of monetary income and the distribution of net profits and losses. Under this type of voting, a decision is adopted, if the affirmative votes cast represent at least two thirds of the subscribed capital of the ECB and include at least 50% of the shareholders, the votes of the Executive Board having zero weight³.

As a rule, the Governing Council meets twice a month. The first meeting usually takes place on the first Thursday of the month and it is traditionally devoted to monetary policy issues. A decision on the key interest rates of the ECB, which is announced by the president of the

ECB during the subsequent official press conference, is adopted at the meeting. The second meeting in the month mostly takes place two weeks after the first meeting, on Thursday as well. The remaining issues related to other tasks of the Eurosystem are decided at the meeting. These are for example decisions related to the ECB, foreign exchange management, operation and supervision of payment systems, and to the issue of banknotes. In the event of extraordinary situations, a meeting of the Governing Council can also be held by means of a teleconference.

The **Executive Board** primarily prepares meetings of the Governing Council, executes the decisions of the Governing Council and manages the operation of the ECB.

The **General Council** meets in the composition of the governors of central banks of all EU states, the president and the vice-president of the ECB. Its main tasks include the adoption of convergence reports and the promotion of cooperation within the ESCB.

Eurosystem/ESCB Committees

Eurosystem/ESCB Committees assist considerably in the fulfillment of the tasks of the decision-making bodies of the ECB. They draw up expert opinions in their field of responsibility and perform specific tasks based on the mandate approved by the Governing Council. Each NCB can nominate two representatives to the committees. There are currently the following thirteen Eurosystem/ECSB Committees:

- the Accounting and Monetary Income Committee
- the Banknote Committee
- the Banking Supervision Committee
- the Committee on Cost Methodology
- the Eurosystem/ESCB Communications Committee
- the Information Technology Committee
- the Internal Auditors Committee
- the International Relations Committee
- the Legal Committee
- the Market Operations Committee
- the Monetary Policy Committee
- the Payment and Settlement Systems Committee
- the Statistics Committee.

The following committees have a special status:

- the Budget Committee
- the Human Resources Conference
- the Eurosystem IT Steering Committee.

- ² The Governing Council has introduced the term „Eurosystem“ with the aim of facilitating the understanding of the structure of central banking in the euro area. The term puts emphasis on common identity, team work and cooperation of all its members.
- ³ Art. 10.3 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank.



Employees of the NBS participate in the preparation of the Governor of the NBS for meetings of the Governing Council in two phases. In the first phase, the professional units, and to a large extent NBS representatives in committees or working groups, participate in the extensive process of preparation of analyses, reports and proposals of decisions before their inclusion in the agenda of the meeting of the Governing Council or their submission for approval in the form of a written proceedings.

In the second phase, they prepare opinions for the NBS Governor regarding items of the agenda of the meeting of the Governing Council, which is set by the Executive Board, as well as opinions regarding written proceedings. A briefing, to which members of the Bank Board, relevant managing employees and experts are invited, with respect to those materials takes place always sufficiently in advance of the Governor's participation in a meeting of the Governing Council. After return-

ing from the meeting, a debriefing takes place, at which information is provided on the adopted decisions, the development of the discussion and, if applicable, on the particular tasks resulting for the NBS.

Due to the importance of the agenda resulting from the membership of the NBS Governor in the Governing Council and the General Council an ECB Coordination Section was created within the Office of the Governor as of 1 June 2008. The task of the section is to ensure the complex process of preparation of the NBS Governor for meetings of the Governing Council, the General Council and at the same time to coordinate the process related to the written proceedings and consultations.

It can be stated that the NBS has a run-in system today, which enables it to be a full-fledged central bank of the Eurosystem, and which provides the Governor of the NBS with the necessary support in his activities in the Governing Council and in the General Council.

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The NBS traveling exhibition Slovak Euro Coins has been installed in Skalica

The travelling exhibition Slovak Euro Coins – an exhibition of the artistic designs of the Slovak sides of the euro coins – was opened in the Municipal Library in Skalica on 20 May 2009.



The picture shows (from the left): Monika Siegelová, head of NBS communication section, Eva Karasová, director of international relations and communication department, Ľubica Rozborilová, head of the Municipal Library of Skalica, Karol Mrva, member of the Bank Board of the NBS, Ľudovít Barát, vice-mayor of the Town of Skalica during the opening of the exhibition.



Karol Mrva, member of the Bank Board of the NBS and Ľudovít Barát, vice-mayor of the Town of Skalica cutting the tape.

The exhibition was solemnly opened by Karol Mrva, a member of the Bank Board of the NBS, on behalf of the National Bank of Slovakia in the presence of Ľudovít Barát, the vice-mayor of the Town of Skalica, Ľubica Rozborilová, the head of the Municipal Library and other representatives of regional banking, social and culture life. In addition to basic facts related to the European Union and the euro area, the traveling exhibition Slovak Euro Coins presents a collection of the most interesting unimplemented Slovak euro coin proposals by prominent Slovak artists, as well as the winning Slovak euro coin proposals. Over the last 3 years, the exhibition was shown in 17 Slovak towns, and it was installed together with a similar exhibition of the central bank of Slovenia under the title Slovenia 2007 – Slovakia 2009 in Warsaw.

The Slovak Euro Coins exhibition will be available to the public in the Municipal Library on Námestie Slobody 4 in Skalica until 30 June 2009 during business days from 8:00 a.m. to 4:00 p.m.

