National Changeover Plan

National Euro Co-ordination Committee

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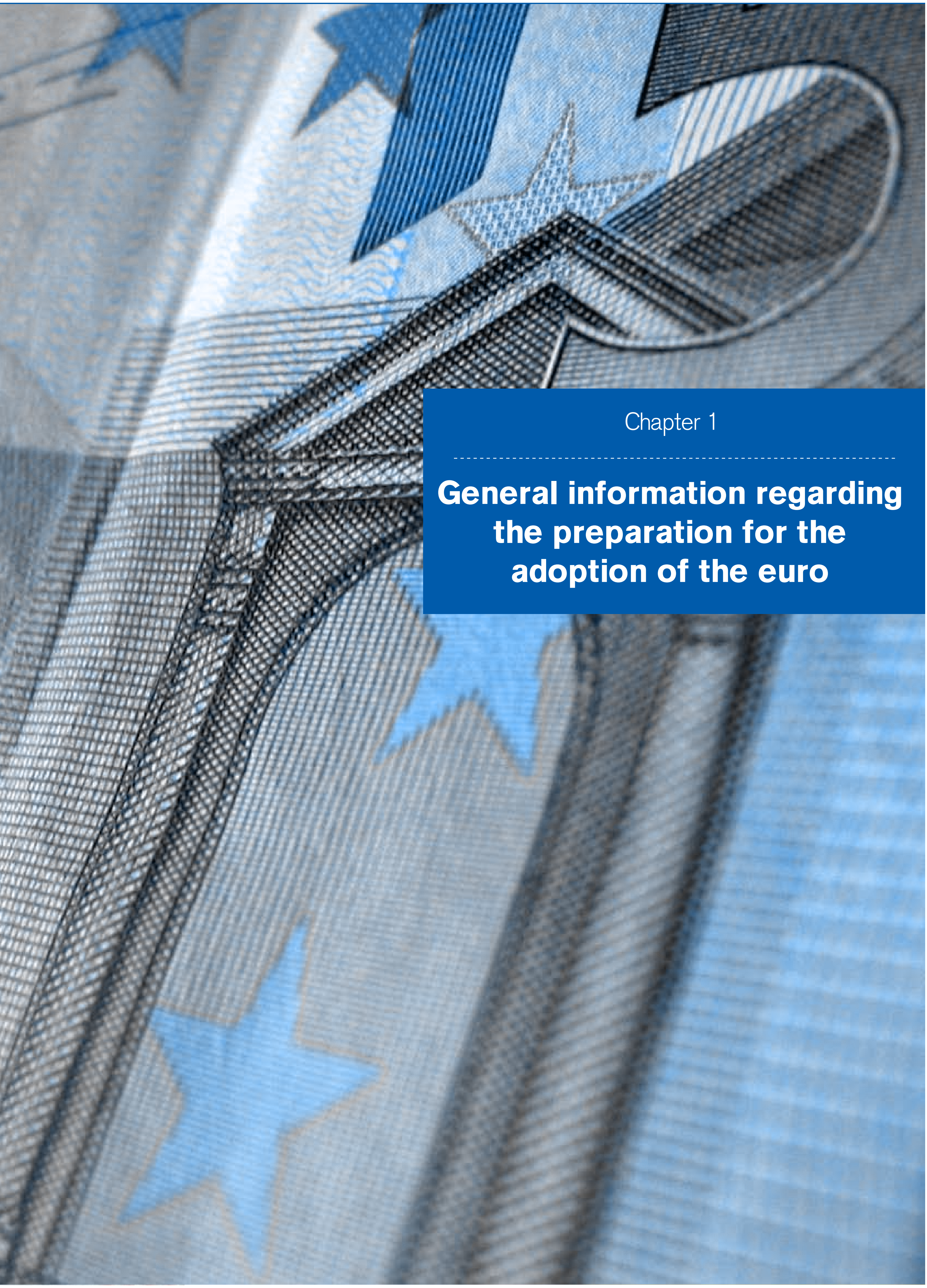
Chapter 1

General information regarding the preparation for the adoption of the euro



1 Introduction

Money plays a major role in the operation of an economy. It is a constant companion in the day-to-day activities of economic participants and the general public, functioning as a medium of exchange, a unit of account, and a store of value. In addition to its functions in the economy, money is an instrument which, in part, expresses the identity of a country. The forint has been the official currency of Hungary since 1 August 1946. While the coins and banknotes have changed several times during these more than six decades, the forint has remained.

By joining the European Union, confirmed by the referendum held in 2003 in relation to EU membership, Hungary has undertaken a commitment to introduce the euro, the single currency of the Economic and Monetary Union, when the required conditions have been met. With the introduction of the euro in Hungary, the country's integration in Europe will reach a higher level. Adoption of the single currency will create new opportunities, have a significant influence on the economic processes and impact society as a whole. In addition, this important step will help improve the international stature of Hungary's economy. As the euro replaces the forint, a concept associated with the country for many decades will cease to exist, but the economy and the society will both gain from the single European currency.

Adoption of the euro, however, is subject to meeting strict conditions. On the one hand, all countries which are to join the euro area are required to meet certain economic policy requirements, the so-called Maastricht criteria, and bring their legislation in line with that of the Economic and Monetary Union. On the other hand, these countries also need to prepare for a number of practical challenges arising from currency changeover. After this work has been completed, adoption of the euro will contribute to the evolution of a more successful economy with higher growth potential, benefiting Hungarian society as a whole.

The objective of changeover is to ensure that Hungary succeeds in replacing the forint with the single currency of the euro area at a reasonable cost, while enjoying the highest possible benefits.

New currency – new opportunities

By introducing the euro numerous windows of opportunities will open up and many changes will occur throughout the economy, society and in international relations. While the emergence of the economic benefits of the single currency is a gradual process based on the fulfilment of certain structural conditions, favourable changes affecting society in general and the population in particular will be evident as soon as changeover takes place.

The **economic benefits** are reflected in higher potential GDP growth, which is generated by the expansion of trade and the acceleration of consumption and investment, promoted by the lower interest rates associated with the highly credible single currency. Joining a large, internal, single-currency market stimulates trade by eliminating exchange rate risk and the transaction costs associated with the currency and foreign exchange management; thus, the exchange rate fluctuations of the national currency will be a thing of the past, while the single currency improves the comparability of prices. The accounting currency for 60-70 percent of Hungarian foreign trade will be identical to the new national currency, which will save Hungarian enterprises substantial transaction costs and exchange rate risks. The single currency provides much more effective protection against currency crises, which improves the predictability of economic processes for all participants.

For the **population,** some **benefits** will become evident as soon as Hungary joins the euro area. Citizens travelling within the euro area can enjoy the benefits of not having to exchange money and bear the related transaction costs, while the improved comparability of prices allows them to make better informed purchase decisions. The improved comparability of prices boosts competition, which will ultimately benefit the population. In the long run, society benefits from the gradual realisation of positive economic effects, as the combined consequence of these processes will be manifested in an increased level of income.

Membership of the euro area will increase the reputation and influence of Hungary within the European Union. As a member of the euro area, the finance minister of Hungary will be invited to participate in the meetings of the Euro group.[1] According to the adopted applicable rules, the governor of the Magyar Nemzeti Bank may attend the meetings of the Governing Council of the European Central Bank, and present an opinion on decisions concerning the monetary policy of the European Central Bank, while the representatives of Hungarian authorities may attend all the meetings and participate in all the decision-making processes of the EU from which Hungary has thus far been excluded as a non-euro zone member.

While the improvement of international representation and several benefits for the population will be prompt and complete, the pace at which economic benefits are realised depends on the quality of readiness for euro area membership. Hungary can reduce risks and accelerate the full realisation of the benefits by thoroughly preparing for changeover. Preparation will materialise on two planes simultaneously: at the levels of economic and practical preparation.

Practical preparations for the adoption of the euro

Practical preparation covers the responsibilities of the public and economic participants which are required for the introduction of the new currency. These responsibilities are highly diverse. For example, all entities must convert their accounting and payroll systems; banks must convert the loans and deposits of their customers from forint to euro; ATMs must be stocked with euro notes; the public sector must co-ordinate the possible modifications of provisions regarding taxes and contributions and the conversion of social benefits. In order to curb unfair price increases, consumer protection bodies must prepare to monitor the new prices; and all information technology systems must be re-programmed so that they can manage forint-euro conversions automatically. It is essential to focus on providing information to citizens in general, and vulnerable groups of society in particular. A complex communication strategy, which is designed to ensure that all participants (private and public sectors as well as citizens) obtain relevant information in a timely manner and a carefully scheduled format, is critical to the success of changeover.

Due to the complexity of the responsibilities, the introduction of the euro is a time-consuming task. Starting these preparations at the earliest possible point in time helps to deliver a cost effective, carefully planned euro changeover, which, in turn, allows the economy to realise the resulting

1 A currently informal session attended by the finance ministers of the member countries of the euro area, governed by its own separate rules, formally to be recognised after the Lisbon Treaty comes into effect.

benefits more fully and rapidly. In view of the time-consuming nature of practical preparation for the introduction of the euro and the broad scope of responsibilities involved, the government announced its decision to commence preparation in Government Decree 1071/2007 (IX. 21.). In order to map out the responsibilities and co-ordinate the preparation, the government has established the National Euro Co-ordination Committee (NEC), a proposal-making, advisory and consulting body.

The wide range of public responsibilities and decisions covered by the organisational structure of the NEC provides a framework for changeover responsibilities. Government agencies must identify the fundamental principles, and prepare and co-ordinate all legislative changes. These are the very cornerstones on which undertakings, the financial sector and the public sector will be able to build upon in the changeover of their specific areas. Priority should be given to key government responsibilities, including the review and conversion of the public sector's information technology systems, which also represent another external contact point with those involved. Changeover impacts society as a whole, and the active involvement of economic and social participants and citizens is critical to the successful identification of responsibilities and their execution. A timely co-operation and communication strategy which effectively involves all participants in the process is crucial for successful introduction of the euro.

National Changeover Plan

The most important document of practical preparation is the National Changeover Plan (NCP), which was formulated by the National Euro Co-ordination Committee and incorporates the results of a wide range of consultations. The NCP outlines the key responsibilities of the economic participants and professional fields, the changes in legislation relevant to the introduction of the euro, and, by providing recommendations, it assists in the transition of the private and public sectors. In order to assist in scheduling the work to be undertaken, it also provides a timetable and defines the responsible parties. The National Changeover Plan is approved by the government.

At the time being, Hungary has no specific target date for the adoption of the euro. On the basis of the government's mid-term economic policy plan and the rules and provisions of the EU, however, the earliest date for changeover is 1 January 2012. In order to make this date achievable, some areas must start preparation for practical transition as early as in 2008. Even if the euro is not introduced in 2012, preparations started at an early stage will not be wasted. In this phase the focus should be on work that can commence even without a target date. The most important aspects of such work include taking stock of the tasks to be completed and identifying the related cost and time requirements. In view of these factors a realistic plan for the process of changeover can be developed for each organisation. Preparation commenced in a timely manner facilitates the success of the changeover, while delaying preparation may result in increased costs and jeopardise a successful changeover to the euro by the deadline.

The National Changeover Plan will be reviewed as appropriate, but at least once a year. As preparation progresses and workflows become more concentrated, certain responsibilities become more and more specific, while others are completed.

This first version of the NCP focuses on the most important work to be undertaken. The key objectives of the plan are to identify specific tasks, draw up proposals for solutions and set a schedule. The remaining sections of Chapter 1 describe the main underlying principles of the introduction of the euro, a timetable for changeover and the organisational structure of the National Euro Co-ordination Committee. The NCP henceforth refers to the day of euro adoption as €-day, and the schedule of activities is targeted to this day.

2 Main underlying principles and rules of changeover

Single-step adoption of the euro

Hungary will introduce euro cash and scriptural money simultaneously, because with regard to the options offered by EU rules, most arguments are in favour of a single-step adoption. Euro cash has been in circulation for many years, there is no need for a transition period between the adoption of cash and scriptural money as used by the old Member States. The new EU Member States that have already adopted and those that are preparing to adopt the euro have all opted for a single-step adoption without a transitional period.

Euro adoption date

On 1 January of the year of adoption, euro will replace the forint as legal tender. Several factors are behind timing the changeover on the first day of the year. The financial year in Hungary lasts from 1 January to 31 December, and hence this option would be convenient in terms of the fulfilment and processing of accounting and tax liabilities. Another argument in favour of this date is that, from a communication point of view, it is practical to select a date that is associated with a memorable event and is easy to remember. Finally, demand for cash is significantly lower after the holidays, making the task of currency replacement easier.

Dual circulation period

On the day of euro changeover the euro becomes legal tender, while, for a pre-determined period of time (probably for a month or less) the forint remains in circulation parallel to the euro. The actual length of the dual circulation period will be determined, in due course, by the Hungarian authorities. According to European provisions this period may not exceed six months. In practice, this period has tended to be considerably shorter: at the time of the initial introduction of the euro it was a one or two-month period in most cases, while for new members it typically took a few weeks. This means, that during the period of transition following the changeover the forint and the euro will both be accepted for cash transactions, while all non-cash transactions will be denominated exclusively in euro. Previous experience suggests that such a short period provides ample time to replace the forint with euro cash. It has to be ensured that forint coins and notes can be exchanged in banks or via the postal network for a certain period of time beyond the dual circulation period. In line with the prevailing legislation, forint coins and notes may be exchanged at face value at the Magyar Nemzeti Bank within five and twenty years, respectively, from the date when the forint is withdrawn from circulation (the end date of the dual circulation period).

Dual display of prices

During the year preceding the adoption of the euro, from the earliest possible date after the conversion rate has been irrevocably fixed[2] until 30 June of the following year, it will be mandatory to display both forint and euro prices on all displays with reference to cash value. In order to help citizens get used to the new currency, and to ensure a permanent transparency of price changes, dual display of prices should be used as early as practicable after the exchange rate has been irrevocably fixed. This

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2 From an economic perspective, the irrevocably fixed exchange rate should not be viewed as an exchange rate, rather as a conversion rate, which defines the previous forint value in euro.

period ends 6 months after €-day. Dual display of prices for an excessively long period may inhibit familiarisation with new nominal values and internalisation of the use of the euro.

Continuity of contracts

The most important mandatory principle to comply with during the changeover is set forth by Council Regulation (EC) No 1103/97 on the principle of legal continuity. This means that the changeover to euro will not entail the termination and a simultaneous re-conclusion of contracts, as all existing contracts remain in full effect. From the day of the changeover, however, all forint amounts included in legal instruments will be deemed to imply the corresponding euro amounts converted at the irrevocably fixed exchange rate.

Inviolability of nominal interest rates

One of the consequences of the principle regarding the continuity of contracts, which, due to its significance, the Council Regulation explicitly emphasises, is that the nominal interest rate payable by the debtor may not be altered as a result of the changeover to the euro in the case of fixed-rate contracts. Even variable rate contracts are not modified beyond changes in the benchmark interest rate (e.g. EURIBOR instead of BUBOR).

Irrevocably fixed exchange rate

The irrevocably fixed exchange rate will be determined by the Council of the European Union approximately 6 months before the changeover to the euro. The exchange rate identifies 1 euro with a corresponding forint amount with six-digit accuracy. As a rule, the conversion of forint values to euro ones will use the official, irrevocably fixed six-digit conversion rate.

1 € = XXX.XXX Ft

Rounding

As a rule, all forint values and amounts to be paid or accounted for after conversion at the irrevocably fixed exchange rate shall be rounded to the nearest cent (arithmetic rounding). When rounding is required for practical reasons (e.g. an amount is too small to be expressed in euro cents, or for the conversion of any penalty, amount owed or charge defined as a fix amount), additional conversion/rounding of the post-conversion value might become necessary. In such cases, according to the guiding principles determined after the review of all the items in question, the applicable rounding method may be neutral, based on the rules of arithmetic rounding, or may be based on certain preferences, i.e. some items will only be allowed to be rounded up, while others rounded down. In order to improve efficiency, a decision may be made to exclude the 1 and 2 euro cent coins from circulation, which may pose another challenge with regard to the determining of rounding rules.

Costs of the changeover

An important principle is that the costs of changeover are to be borne by the parties where costs are incurred. In this regard, the two major cost bearers are the corporate sector, the main beneficiary of the changeover, and the government with regard to the conversion of its own systems, the partial funding of communication and the general co-ordination of the preparatory work.

Avoidance of changeover-related price rises

Currency replacement should not be allowed to give rise to price increases. Changeover to the euro should not have any material impact in terms of inflation, and efforts must be made to minimise the perception of inflation during the process. Compliance with this principle is important to help establish trust in the new currency, to limit the propensity for raising prices and to reduce the perception of inflation. During the changeover people will have to become accustomed to the new cash values, and thus, initially, it is vital to provide them with transparent information and assure them that the prices denominated in euro do in fact reflect the irrevocably fixed exchange rate. The rule of displaying the prices of products and services in both currencies helps to maintain consumer confidence. Obviously, changeover to the euro cannot prevent the market from influencing prices, but switching to a different currency alone should not serve as a pretext to raise prices.

Distribution of information

In the course of preparation market participants in general, and consumers and small companies in particular, should be kept updated on the preparatory work and provided with practical information concerning changeover. Special attention should be given to providing information to vulnerable groups and assisting them in their preparation. The replacement of the national currency with the euro should be consumer-friendly; conducted in a way that ensures that all of the benefits of joining the euro area are clearly and credibly communicated. This not only facilitates positive reception but also strengthens domestic public confidence in the euro.

Preparations

The euro should be introduced and practical preparations performed as efficiently as reasonably possible, with the various aspects of cost efficiency and competitiveness fully taken into account. Participants of the public sector should lead the way in the preparations, and set an example for the participants of the private sector. The financial and human resources required for changeover and the practical preparations should be identified and made available in a timely fashion, in both the public and the private sectors.

Increasing competitiveness

From a national economic perspective, changeover should be conducted at optimal cost levels in a way that contributes to the improved competitiveness of each economic sector.

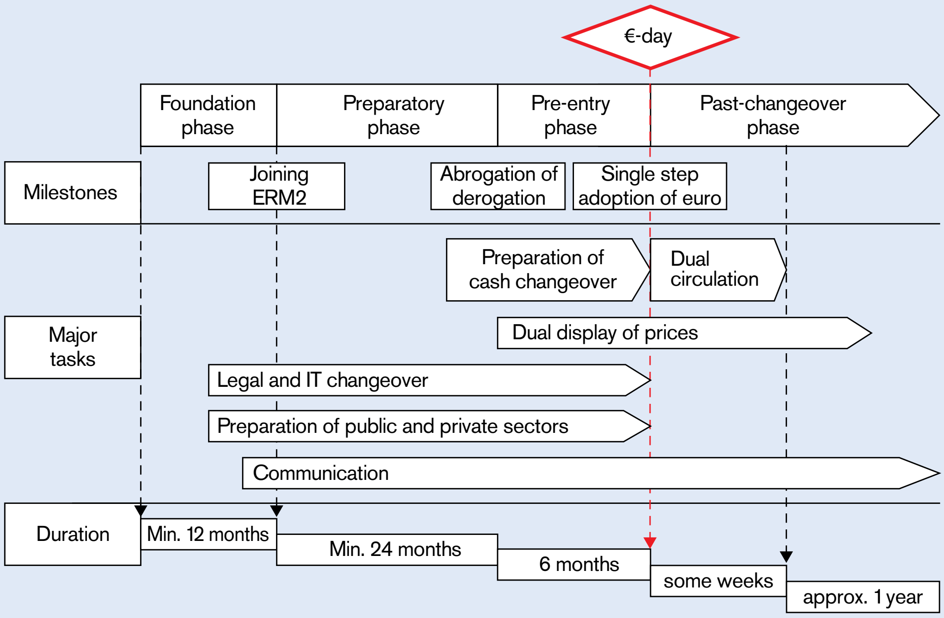
Efficient changeover

Efforts must be made to ensure a safe, well-organised and smooth changeover.

3 Changeover timetable

Based on international experience, practical changeover to the euro takes a minimum of three to four years. The process can be divided into four phases.

Chart 1: Main phases of the changeover



Adoption of the government decree on the commencement of practical work marked the start of the **foundation phase** in autumn 2007. This phase lasts until the date of Hungary's joining ERM2. Two tasks identified for this period have been accomplished so far: an organisational structure managing changeover has been set up, and the first version of the NCP has been drafted. During the foundation phase, all economic participants are recommended to review their respective tasks in relation to changeover and should start identifying and performing the specific activities, e.g. responsibilities related to the information technology and legal changeover, which do not require knowledge of the target date.

The **preparatory phase** starts after joining ERM2 or when the target date is known and lasts up until the derogation is abrogated, about half a year before the date of introduction of euro cash (€-day). In the preparatory phase, preparation tasks become easier to schedule, and preparation work intensifies. The preparation of the individual economic sectors begins, and the IT and legal changeover continues. It should be noted that already in this period, efforts should be made to complete the required tasks as fully as possible to ensure timely preparations. In addition, a crisis plan needs to be approved to manage potential risks.

The **pre-entry phase** begins after abrogation of derogation, irrevocable fixing of the exchange rate and finalisation of the changeover date, and lasts until €-day. During this period the majority of the activities started in the preparatory phase are completed, and preparations for activities related to cash changeover should be started. This period requires intense communication with citizens. Based on the fixed exchange rate, all prices should be displayed in both forint and euro.

In the **post-changeover period** it is critical to accomplish all the tasks related to the dual circulation period, the withdrawal of the national currency and adaptation to equivalent euro values and the use of a new currency. In order to maintain confidence in the single currency, communication campaigns and the dual display of prices should continue, while consumer protection is reinforced. One year after €-day the practical changeover to the euro will have been completed.

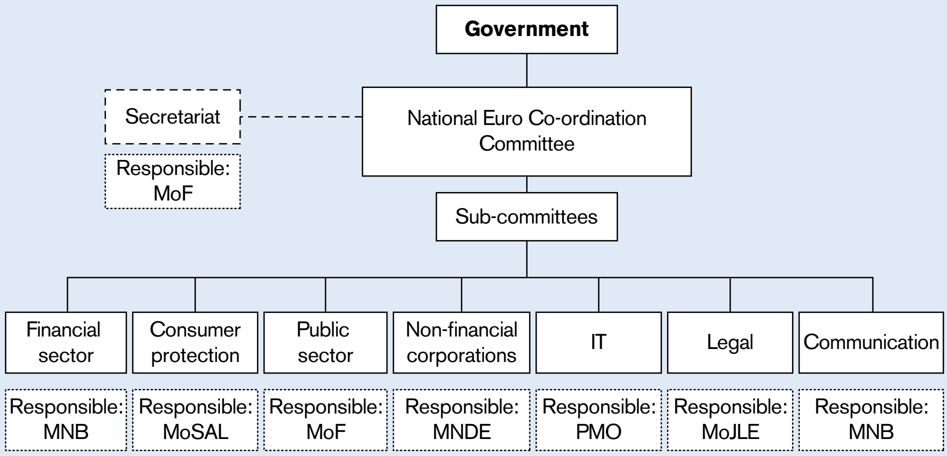
4 Organisational structure of the changeover

The National Euro Co-ordination Committee (NEC) is a proposal making, advisory and consulting body responsible for co-ordinating the work related to the establishment of the practical conditions required for euro changeover. The chairman of the NEC is the finance minister, and the governor of the Magyar Nemzeti Bank serves as co-chairman. Members of the NEC include the Minister for National Development and Economy, Minister of Justice and Law Enforcement, Minister in Charge of the Prime Minister's Office, Minister of Local Government, President of the Central Statistical Office, and President of the Supervisory Council of the Hungarian Financial Supervisory Authority.

The NEC has set up seven sub-committees to share the workload within its field of competence, and assigned persons to each sub-committee. Representatives of the relevant sectors (consumer interest and civil organisations) as well as public administration organisations participate in the work of the sub-committees. In order to operationalise the activities, certain sub-committees have set up working groups. This structure enables all the participants affected by changeover, including representatives of the private sector and civil society, to be actively involved in the work of identifying all the tasks as they arise and developing effective proposals for addressing potential issues.

The structure of the NEC was defined on the basis of the division of responsibilities within the government in 2007. All effects arising from future changes in the organisational structure of public administration and in the division of labour between the various organisations should be incorporated into the NEC's operations during the preparations for changeover. Consequently, in July 2008 the Minister of Social Affairs and Labour became a member of the NEC, taking over responsibility for the consumer protection sub-committee. Accordingly, the structure of the NEC is as follows:

Chart 2: Organisational Structure of the National Euro Co-ordination Committee[3]



3 MoF: Ministry of Finance; MNB: Magyar Nemzeti Bank – the central bank of Hungary; MoSAL: Ministry of Social Affairs and Labour; MNDE: Ministry for National Development and Economy; PMO: Prime Minister's Office; MoJLE: Ministry of Justice and Law Enforcement.

5 Meeting the Maastricht criteria

The economic condition for adopting the euro is to comply with the so-called Maastricht criteria. The conditions set forth in the Treaty establishing the European Community (with the addition of the required legal convergence) are as follows:

- Price stability
- Sustainable public finances
  – Government deficit
  – Government debt
- Exchange rate stability
- Interest rate convergence
- Sustainability of the above, and
- Other items (e.g. current account balance, unit labour costs)

The Convergence reports of the European Commission and the European Central Bank published in May 2008 declared that Hungary had not met the criteria required for the adoption of the euro in the reference period. At the same time, if the path set in the convergence programme of November 2007 is followed, all Maastricht criteria will have been achieved by 2011, which, in turn, means that the earliest date at which the single currency can be introduced is 1 January 2012.

	Convergence analysis*			
	May 2008		**May 2011**	
	Criterion	**Hungary**	**Criterion**	**Hungary**
Inflation	3.2%	7.5%	oscillating	approx 2.9%
Government deficit / GDP**	3%	5,5%	3%	2.7
Government debt / GDP**	60%	66%	60%	63.3%***
Exchange rate	ERM 2	non-member	ERM 2	
Long-term interest rate	6.5%	6.9%	oscillating	approx 5.4%

Source: Convergence report, May 2008.
Updated convergence programme of Hungary, November 2007.
** In case of a positive decision, introduction of the euro is possible in the year following the convergence analysis.*
*** For the government deficit and government debt criteria, based on actual data of the year preceding the convergence analysis.*
**** Government debt criterion is met, due to decelerating debt dynamics.*

Chapter 2 of the NCP thematically describes the main areas of the preparatory work and the responsibilities of the individual economic participants. The first two sections address legal and information technology issues. These are the areas which involve the widest range of participants. The changeover-related responsibilities of the public, financial and corporate sectors are described next, followed by an account of the challenges related to consumer protection and communications. Responsibilities concerning these last two aspects will emerge primarily in the final phases of the changeover and in the period following €-day. Annex 1 contains tables setting out the work to be done by each of these areas and a schedule for the tasks. For information purposes, Annex 2 contains a detailed organisational structure of the National Euro Co-ordination Committee along with the contact information of its participants, as well as a list of the organisations participating in the development of the National Changeover Plan. A glossary of terms in the NCP and a list of abbreviations are attached at the end of the document.

Chapter 2

Responsibilities of the individual areas during changeover

1 Legal framework for the changeover

The introduction of the euro requires changes in Hungarian legislation. On the one hand, these changes involve the amendment of existing legislation and, on the other hand, as new issues arise in the changeover period, new legal provisions will have to be adopted. Amendment of existing legislation can be divided into two separate tasks. The first, and probably most time-consuming, task is to replace all references to the word 'forint', forint values and the central bank base rate in existing legislation with the relevant terms used in the Eurosystem after changeover to the euro. This can be achieved by applying automated (replacement) rules or by specific amendment of the provisions item by item. Completion of this task requires a review of all legislative provisions. Another task is to harmonise existing legislation with Community law, which is, in addition to compliance with the Maastricht criteria, another pre-requisite for the introduction of the euro. All these tasks are executed in line with a pre-defined legal strategy. The legal sub-section describes the guiding principles for the modification of legislative provisions made necessary by the changeover and a schedule for the related tasks.

1.1 Parties concerned

Legislators, bodies responsible for drafting normative texts and bodies issuing other legal instruments of State:

- Government;
- Magyar Nemzeti Bank;
- Ministries;
- Local governments.

1.2 Tasks

1.2.1 General legal strategy

In developing the main principles governing the legislative provisions relevant to changeover, Community laws defining the rights and responsibilities of Member States should be considered as a substantial aspect, and a framework for national legislation should be established on this basis.

The main objective and requirements of legislation serving the needs of the changeover to the euro are as follows:

- In order to ensure a safe and smooth changeover, in view of the directly applicable legal norms of Community laws, national legislation will need to categorically define the rights and obligations of the individual legal subjects with regard to the changeover.

- National legislation should not cover any issues which have already been clearly regulated by directly applicable legal norms of Community laws.

- National legislation should avoid laying down unreasonably detailed provisions.

- Any provisions that would be in breach of applicable Community law must be either amended or repealed.

- National legislation should strengthen confidence in the acceptance of euro as the new legal tender and contribute to the reduction of inflationary impacts in connection with the changeover to the greatest possible extent and the adoption of consumer-friendly legal solutions.

• Amendments to legislative provisions should be limited exclusively to those that are justified by the adoption of the euro.

1.2.2 Framework for national legislation, regulatory options

One basic method of adjusting national law is to adopt an umbrella law laying down the required amendments as well as the basic rights and obligations; however, in some cases, individual and item-by-item amendments to the legislative provisions in force may also be justified.

Based on international experience, it is general practice to adopt an umbrella law to govern the changeover process (e.g. that was the case in Austria, Cyprus, Slovenia, Malta and Slovakia; and Lithuania, Latvia and the Czech Republic have similar plans), while item-by-item amendments to specific laws are made in addition, as and when appropriate.

1.2.3 Changeover Umbrella Law

The precise contents of a Changeover Umbrella Law (or, as the case may be, umbrella laws) are to be determined in the upcoming phases of the preparations, subject to timing of the completion of the specific legislative tasks in the periods preceding the adoption of the euro.

At this time, the following items can already be identified as primary elements constituting the contents of the Changeover Umbrella Law:

• Specific issues related to the definition of euro as legal tender, not specified by Community law;[4]

• Process of euro adoption;

• Duration of the dual circulation period;

• Provisions not specified by Community law with regard to the display of forint values in euro and the forint-euro conversion applied in legal instruments set forth under Community law;

• Special rounding rules not specified directly by Community law regarding the rounding of conversions that are to be applied even in the absence of (item-by-item) amendments to the relevant provisions;

• General, one-off or temporary conversion rules for accounting and book-keeping;

• Main provisions related to closing account balances on the day of internal conversion, and main rules regarding the conversion from central bank base rates to any relevant benchmark rate;

• Rules of dual price display;

• Fundamental consumer protection and anti-inflation rules with respect to changeover;

• Key provisions and competences concerning the control and penalty system to be applied during changeover.

The Changeover Umbrella Law should contain minor amendments to several major laws which are directly connected to certain substantive or procedural rules set forth by the Changeover Umbrella Law. In addition, the Changeover Umbrella Law should include those instances of major repeal that are directly linked to the introduction of the euro and Community legislative provisions. Such repeals may, pending further analyses, include legislation declaring the status of forint as legal tender or provisions related to the issuance of forint notes and coins, including commemorative notes and coins.

Item-by-item amendment, with €-day as the effective date, of all legal instruments containing references to values denominated in forint will not be necessary if the contents and provisions of the Changeover Umbrella Law (especially rounding rules) are precisely defined. For this purpose, a differentiated and automated conversion mechanism should be established under the Changeover Umbrella Law. By employing this approach, the required item-by-item amendments could be limited to a relatively small number. (The adoption of such a solution also for legislative provisions governing

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4 Any provisions set forth by the directly applicable standards of Community Law which do not require any deliberation or further enactment on the part of the Member States (e.g. fixed exchange rate, continuity of contracts, etc.) should not be included in the Changeover Umbrella Law, even legal references to their mandatory application should be avoided.

general payment obligations such as provisions covering certain tax, penalty or duty payment obligations cannot be ruled out.)

Under the differentiated automated mechanism, the Changeover Umbrella Law will define rounding rules relevant to a specific group of legislative provisions and legal relationships. Although the main rounding rules are specified under the relevant Community law, each Member State has a certain amount of discretionary leeway in this regard. The objective of the rounding rules provided by Community law is to ensure legal certainty and transparency. The EU Commission has pointed out on several occasions that all values remain unchanged during changeover; therefore, whenever possible, conversion and rounding rules should be applied unchanged. In special cases the exclusive application of these rules may be waived to adjust converted values. Such may be the case if, for example, a Member State intends the euro equivalent of an amount defined in the national currency to be expressed as a round number. Special rounding may be necessary if adjustments stem from negligible differences and small amounts.

1.2.4 Main legislative provisions requiring specific amendments

The Changeover Umbrella Law cannot satisfactorily modify certain legislative provisions which are directly related to the adoption of the euro and require specific amendments. Major examples include:

Review of provisions related to the legal status of the MNB

Within the framework of legal integration into the Eurosystem, the constitutional provisions determining the legal status of the Magyar Nemzeti Bank, namely, Article 32/D of the Constitution, will have to be reviewed. In part this is necessary because as of the date upon which the euro is adopted in Hungary the MNB's competence for monetary policy shall be transferred to the ECB.

Act LVIII of 2001 on the Magyar Nemzeti Bank will have to be reviewed more thoroughly. The main purpose of the amendments is to ensure compliance with the relevant provisions of the EC Treaty and the ESCB Statute. The main areas which may be affected by the review include:

- monetary policy and monetary policy instruments;
- provisions on exchange rate policy;
- management of foreign exchange reserves;
- provisions regarding the issuance, withdrawal and exchange of banknotes and coins.

Further legal acts which may require item-by-item amendments

If an adequate, automated mechanism can be defined in the Changeover Umbrella Law to control the conversion of forint values in the legislation, item-by-item amendment will not be required. However, for the purpose of legal certainty, in view of the special character of certain provisions and regulations concerning institutions' competences, the necessity of item-by-item amendment should be particularly carefully examined in the following areas:

- accounting provisions;
- provisions related to taxation, procedures for taxation and tax administration;
- provisions related to customs procedures, the imposition and payment of levies;
- rules regarding invoices, summary invoices, receipts and accounting documents;
- legislation related to criminal law and minor offences;
- decrees of the Governor of the MNB;
- provisions regulating the remuneration system and statutory remuneration of the public sector.

1.3 Scheduling of tasks

The possible contents of the Changeover Umbrella Law will be significantly influenced by the separate analyses to be performed in various areas to how the differentiated automated mechanism presented in Section 1.2.3. can be applied with regard to changeover. Within the framework of these efforts, co-ordinated by the legal sub-committee, the ministerial portfolios are required to review the legal instruments within their jurisdiction by 31 December 2008. After this review, the legal instruments can be classified according to the principles that are to be followed during the automated conversion of the forint values they contain.

Continuous preparations are required to meet the challenge of identifying the regulatory requirements relating to the introduction of the euro, and formulating possible legal solutions. In order to ensure that all institutions and organisations of the public and the private sectors affected by the introduction of the euro and private citizens have sufficient time for preparation, the Changeover Umbrella Law and other amendments to legislation should be prepared prior to the announcement of the irrevocably fixed exchange rate. Consequently, and in view of the procedural rules and time requirement of the approval of legal regulations, the actual legislative tasks should be completed 1.5 to 2 years before €-day. On the other hand, in the case of certain legal instruments, which thus far have typically defined forint values on a yearly basis, it may be the case that the legal provision covering the conversion of values cannot be formulated until the end of the year preceding the adoption of the euro.

With respect to the legislative amendments necessitated by changeover, EU provisions (Council Decision 98/415/EC) stipulate that under the EC Treaty, national authorities are required to consult the ECB regarding any draft legislative provisions in its fields of competence. Preparation should take into account the time requirement related to this obligation.

Box 1: Relevant Community law

Legal sources of mandatory Community law applicable during changeover

In addition to Part VII of the EC Treaty and the provisions set forth in the Statutes of the European System of Central Banks, the provisions of three Council Regulations are to be observed with respect to the introduction of the euro. In view of the direct effect of regulations, their provisions may not and should not be duplicated in national law; it may, however, be necessary to draft national legislation in some legal fields to ensure that the provisions of Community law are efficiently executed.

- Council Regulation (EC) No 974/98 of 3 May 1998, on the introduction of the euro

  It contains a regulatory framework in relation to the introduction of the euro, including the name and unit of the currency, and the fact that the euro is legal tender. With respect to the existing national legal references, Article 14 declares, as a general rule: 'references in legal instruments existing at the end of the transitional period will have to be read as references to the euro unit according to the respective conversion rates'.

- Council Regulation (EC) No 2866/98 of 31 December 1998, on the conversion rates between the euro and the currencies of the Member States adopting the euro

  This Regulation specifies the irrevocably fixed conversion rates between the euro and the national currencies. During the Hungarian changeover to the euro this regulation will be amended to include the irrevocably fixed conversion rate between the forint and the euro.

- Council Regulation (EC) 1103/97 of 17 June 1997, on certain provisions relating to the introduction of the euro

  This Regulation presents the most important principles of law to be applied during the changeover to the euro, including the principle of legal continuity[5] (Article 3), and the computation rules to be applied for conversions and rounding (Article 5).

Community recommendations in relation to the introduction of the euro

The recommendations are not legally binding: some of them may be applied by economic participants on a voluntary basis, while the adoption of others as legislative provision should be considered, particularly from a consumer protection perspective.

5 'The introduction of the euro shall not have the effect of altering any term of a legal instrument or of discharging or excusing performance under any legal instrument, nor give a party the right unilaterally to alter or terminate such an instrument. This provision is subject to anything which parties may have agreed.'

- Commission Recommendation 98/286/EC of 23 April 1998, on banking charges for conversion to the euro – according to the recommendation banks should not charge a conversion fee, and during conversions they should clearly show the applied conversion rates.

- Commission Recommendation 98/287/EC of 23 April 1998, on how the dual display of prices and other monetary amounts should be applied.

- Commission Recommendation 98/288/EC of 23 April 1998, on dialogue, monitoring and information to facilitate the transition to the euro.

- Commission Recommendation 2000/C 303/05 of 11 October 2000 on measures to facilitate the preparation of economic operators for the changeover to the euro.

- Commission Recommendation 2008/78/EC of 10 January 2008 on measures to facilitate future changeovers to the euro – based on the experiences of the past years, this recommendation discusses topics such as the development of changeover plans, solutions facilitating the rapid introduction of euro cash, and measures to prevent fraud and price rises.

Guidelines of the European Central Bank

- Guideline of the European Central Bank ECB/2006/9 of 14 July 2006, on certain preparations for euro cash changeover and on frontloading and sub-frontloading of euro banknotes and coins.

- Guideline of the European Central Bank ECB/2006/10 of 24 July 2006, on the exchange of banknotes after the irrevocable fixing of exchange rates.

2 Conversion of information technology systems

As a result of increased use of IT applications, nearly all economic participants will be affected by the system conversion required for the introduction of the euro, which will result in substantial amounts of expenditure (in terms of time, human resources and development costs). As information technology developments are time consuming, and system errors may cause significant expenses, timely preparations are essential for a successful changeover.

In the foundation phase, it is already important to start simulating and planning tasks that can be accomplished without knowing any target dates, and those to be completed in later phases, and to prepare documentation for future activities. For each organisation, the first thing to do is to identify the mission-critical IT challenges it faces as well as the interfaces which are affected by the introduction of the new currency. In this regard, the most important task of the NEC is to define the concept of euro compatibility.

2.1 Parties concerned

Participants directly affected by changeover

- Institutions of the public sector;
- Non-financial and financial corporations;
- Payment systems;
- All other forint-based IT systems.

External organisations assisting changeover

- Committee for IT in Public Administration (KIB) and its sub-committees;
- Public administration bodies (ministries, APEH – the tax authority, Hungarian Financial Supervisory Authority, National Consumer Protection Authority);
- Magyar Nemzeti Bank (central bank of Hungary);
- Representative organisations of different interests.

Those affected should consider the different type of classifications relevant to IT systems:

According to the functionality of IT systems:

- Financial systems (accounting, payroll and invoicing systems);
- Teller systems;
- Record and information systems, which store forint values as well;
- Other IT systems not storing values.

IT systems from the developers' point of view:

- IT systems distributed in an international environment;
- 'Off-the-shelf' software distributed widely at the nation level;
- Limited edition, unique and proprietary software, the upgrade background of which is ensured;
- Limited edition, unique and proprietary software, the upgrade background of which is not ensured.

According to organisational size and IT awareness:

- Ministries, public administration bodies with a national scope; multinational and large corporations;
- Small and medium-sized enterprises with state-of-the-art IT solutions;
- Enterprises with an inadequate focus on IT developments.

2.2 Tasks

Each existing IT system, which is currently based on forint payments or uses or stores forint data, should be enabled to apply the new currency from the day of changeover. In addition, the relevant software and hardware (e. g. payroll systems) should be prepared to support the period of dual price display, and, where appropriate, to manage the short transitional period of dual circulation following the introduction of the euro. The systems should be capable of applying the rounding rules and other provisions.

All involved organisations need to review the external interfaces of their IT systems (e.g. suppliers, customers, banking relations, government systems, etc.); as well as to identify organisations with which they will have to work during the migration of such, and to determine what external consequences will arise due to their internal system upgrades.

All organisations should take into account those interfaces and IT systems, whose inputs they have to supply for others. Required upgrades should be developed in consultation with those affected.

Regardless of the target date, there are also other challenges which these organisations face, such as reviewing their IT systems, developing an IT changeover strategy, preparing a draft schedule for the expected activities (taking into account the required time for communication with those concerned), and working out a budget plan. The IT changeover plan should then be updated on a continuous basis and implementation of all activities defined in the plan should be monitored.

Background materials supporting changeover

One of the responsibilities of the IT sub-committee is to assist public and private sector bodies in addressing problems which arise in the area of information technology during the transition to the euro. This assistance involves providing guidance, clearly defining the requirements, developing recommendations, issuing certificates, and providing notification of modifications to government system interfaces in a timely manner.

The main responsibility areas of the NEC IT sub-committee are:

- Developing a recommendation that outlines the general requirements of euro compatibility for software, hardware and IT systems;
- Monitoring the conversion process of public sector IT systems (defining the scope of affected organisations and assisting in the identification of IT systems to be converted);
- Identifying requirements for financial systems in view of the fact that the systems in question should comply with the requirements of large government systems;
- Specifying best practices.

2.3 NEC recommendations for IT changeover

Based on international experiences, the following best practices can be recommended for all concerned:

- New IT investment should be carried out with an eye to the impact of changeover, and preference should be given to new software which can be upgraded for modifications related to the new currency.
- Starting preparations in time is essential for efficient implementation; last-minute conversions may result in substantial extra expenses.
- During changeover, broader strategic aspects are worth considering when IT systems are reviewed: e.g. is it necessary to replace the entire IT system, or could the old one be upgraded?
- Organisations using external IT systems should verify modification of such external systems, so that they can react properly to such modifications during changeover.

- Prior to converting databases to the euro, forint values should be properly stored to minimise systemic risk.

- Before changeover to the euro, sufficient time must be available for testing new IT systems and for remedying potential errors. In order to minimise conversion risks, developing a crisis plan is recommended.

3 Responsibilities of the public sector during changeover

The co-ordination of different tasks in relation to changeover is a direct responsibility of the government, and the tasks the public sector faces directly impact the widest spectrum of Hungarian citizens. Performing this work with a high degree of quality helps to improve public confidence in the new currency and reduce the uncertainty inevitably associated with changes.

The contents and ramifications of public sector changeover can be examined from two aspects:

- Changeover of public sector participants acting as entities, including the responsibilities of the individual budgetary chapters and budgetary institutions;

- Changeover of large systems operated by the public sector (systems supporting taxation, accounting, statistical systems, remuneration in the public sector, social and welfare contributions, etc.).

In view of the fact that the preparations of citizens and the private sector are primarily affected by the changeover of the large systems, the first version of the National Changeover Plan must focus on these functional issues.

3.1 Parties concerned

The parties affected by changeover in the public sector should be examined from two aspects:

- Those affected by changeover include, indirectly, all residents and all organisations in the country.

- Participants of the public sector, non-profit bodies and organisations funded from the central budget, i.e., all budgetary chapters and budgetary institutions.

3.2 Tasks concerning several areas of the public sector

With respect to the areas covered by the public sector, there are some actions which must be taken for all or the majority of the functional areas in the public sector. In order to avoid duplications, we present a summary of prevailing actions.

Changes in legislative provisions

Chapter 2.1 summarises the major tasks involved in preparing the changes in legislation. One of the initial steps to be taken during the changeover of the public sector is to review the legislative provisions (acts and decrees of government, ministries and local governments), and to prepare the proposed amendments, as appropriate. When proposing modifications to legal provisions that provide the operational framework of the public sector, efforts must be made to limit the number of individually modifiable provisions to a minimum, and to apply the general and particular rules (differentiated automated mechanisms) of a future Umbrella Law to the greatest extent possible. As a general rule, the Euro Umbrella Law stipulates the conversion mechanism and rounding rules which are to be applied following the changeover to the euro for the conversion of forint references that may survive in legal instruments. In view of the specific character of the public sector, a larger number of individual modifications will likely be required in matters concerning public finances.

Amended legislation can generally enter into force at the same time the euro is adopted. Review of legal provisions is co-ordinated by the legal sub-committee and carried out by the institutions responsible for the preparation of the legal regulations.

Changeover of administrative processes, records and IT systems

The changeover of systems primarily pertains to the reprogramming of computer systems. In addressing this task, the databases and the programmes processing them must be reviewed and modified. Data that are stored or generated partly in forint, partly in euro in the records may have to be managed simultaneously, and the ability to process this data may become a requirement.

Resolutions, pre-printed forms and consignment documents will have to be re-edited, and forint references will have to be replaced by references to euro in customer service and information systems.

3.3 Functional tasks to address during the changeover of the public sector

The issues to be addressed during the preparatory work and the changeover of the public sector are diverse, and each area has its own specific set of tasks which are outlined below separately.

3.3.1 Tasks related to the changeover of the taxation (contributions, fees, charges) system

With respect to changeover, and the related responsibilities, changes to the tax system in the broad sense (taxes, excise duties, contributions, administration service fees, i.e., the system of public revenues) can be divided into three fundamental areas:

- Changes in legislation with respect to certain taxes and levies;
- Modification of the record-keeping system of taxes and levies;
- Other tasks concerning the taxation system.

In this area, the amendment of legislation should focus on identifying the itemised (non-percentage) amounts of tax and levy items and penalty fees, as well as the value limits, value ranges, band limits and benefit restrictions pertaining to the performance of tax payment obligations, and on the other hand, identifying those provisions, which pertain to the record-keeping systems for tax payment obligations.

With regard to the requirement of legal certainty, the large number of those affected and the sensitivity of the issue, it is recommended that, wherever possible, taxes and levies stipulated by legal provisions do not contain amounts denominated in forint after the introduction of the euro. Thus, this area is not expected to apply the conversion and rounding rules specified by the Changeover Umbrella Law.

Amendments to existing legislative provisions may be enshrined in the law containing the amendments to customary tax laws for the year, drafted in the year preceding adoption of the euro, and announced on the 45th day before the day it goes into effect.

Changeover of the record-keeping systems of taxes covers the following areas:

- Conversion of forint deposits, liabilities and balances (debit or overpayment) into euro on the taxpayer's current account and the management of all other records in the new currency instead of forint.

- Record-keeping systems should be designed in a manner that can accommodate the fact that, during the dual circulation period payments of taxes and levies can be made at the post office in forint cash for a pre-determined period of time;

- Design, production and distribution of new fee stamps and certificates on taxes and levies, and production of tax and customs stamps in relation to excise tax.

Additional tasks in relation to taxation:

- Tax returns and other pre-printed forms indicating HUF amounts that are used by the tax authority and become due, or are submitted following the introduction of euro cash, must be submitted in euro (for the processing of tax returns relevant to the accounting period preceding changeover, transitional rules should be developed);

- Tax-payers submitting self-assessment returns or a late tax return, must complete the forms in euro (for the processing of submitted forms relevant to the accounting period preceding changeover, transitional rules should be developed);

- Resolutions determining payment obligations in forint amounts which become due following changeover, must display euro equivalents as well;

- Changes in the procedures of reporting to the affiliated authorities of APEH (e.g. government balance sheet, social security funds, reserve funds);

- Replacement of postal cash-transfer orders used by the tax authorities.

3.3.2 Tasks to be completed in the area of the public pension system

Tasks related to pensions financed by the Pension Insurance Fund and all pension-type benefits can be divided into two main areas:

- Conversion of already determined (disbursed) pensions (benefits)

- Re-setting the calculation of new pensions following changeover

Income received in both forint and euro should be taken into account when the sui juris pension base is determined. Benefits to be disbursed for spouses and dependants in euro are to be computed from sui juris pensions denominated in forint. Other special tasks will have to be addressed as well (e.g. conversion of minimum pensions).

The legal environment regulating the provision of pensions unequivocally requires that forint data stored in IT systems must be available even when all payments are already made in euro (retrospective transfers, validation of retrospective claims). Dual management and dual processing of salary and income data (contribution base, contribution) which was generated partly in forint and partly in euro must be supported by the systems.

A strategy should be developed to ensure that pensioners and would-be pensioners are informed in due time. When the planned, so-called notification system and the 'pension calculator' are developed, they will have to be enabled to support the dual management of forint and euro data, and to provide summary assessment of eligibility. From a pre-determined date prior to the introduction of the euro, it would be useful to display the euro equivalent of the amount of pension (other allowances) on the pension slip.

Tasks related to benefits disbursed on the basis of separate legislation and not financed by the Pension Fund (so-called disbursed allowances)

In respect of certain benefits or allowances[6] which are not financed by the Pension Insurance Fund and not regulated by the Pension Act, and in connection with which the Pension Insurance Fund performs administrative (assessment and/or disbursement) tasks, the conversion-related tasks for this area are largely the same as described above. For fixed-sum benefits the task is 'simple' re-calculation; however, special attention should be devoted to re-considering and finding a solution to the issue extremely small-sum benefits (e.g. aid for diabetic patients; central rent assistance; heating vouchers).

6 E.g. small-scale agricultural producer benefits, disability pension, miners' allowances, artists' allowances.

3.3.3 Tasks related to the changeover of other government-funded welfare and social benefits

In the area of social benefits (financial and benefits in kind, family allowance, gas-, distance heating- and energy subsidies, etc.) the following issues must also be addressed:

- Application of the differentiated automatism for conversions and, if the need arises, modification of the legislative provisions applicable to certain social benefits;

- Review of reporting requirements related to applications for benefits;

- Review of other tasks, including those related to the disbursement and controlling of benefits.

For benefits based on the total amount of contributions paid, income received in both forint and euro should be taken into account.

3.3.4 Special issues concerning the changeover of home construction subsidies

Given the fact that the characteristics of home construction subsidies are very different from those of welfare-type benefits, the issue of home construction subsidies should be discussed separately. It is important to take account of the different structure of housing subsidy systems. Valid contracts concluded before changeover will have to be separated from those concluded during or after transition to the euro.

It appears that the current provision relevant to these subsidies is already euro-compatible, i.e. there is no need to change the existing computation formula used for the calculation of subsidy amounts as it has no reference to forint values or inter-bank interest rates which may be eliminated after changeover.

For subsidised and all other loans, changeover means that the existing portfolio of loans/repayment instalments is converted to euro at the irrevocably fixed exchange rate, thus the only change that could affect the amount of repayment instalments is due to rounding to euro cents (which would be a difference of about 2 forints).

In the case of benefits that are approved before, but disbursed and used after changeover, the issue of phased or subsequent disbursement of non-refundable benefits should be addressed.

3.3.5 Issues related to the conversions of wages in the public sector

The public sector has hundreds of thousands of employees. The guaranteed remuneration of public servants is stipulated by the provisions relevant to their legal status. For public servants, the guaranteed remuneration for career starters, which gradually increases as the number of service years grows, is defined in forint. For other payroll systems a salary base is determined annually in forint, and this salary base determines base salaries for the year.

In the payroll systems of the public sector, all absolute amounts of (forint-denominated) remuneration and supplement bases must be converted to euro. These benchmark bases, e.g. the remuneration base specified in the Civil Servants Act, or the amounts in the first payroll grade of the ten payroll categories of the payroll table specified in the Public Servants Act and the supplement base therein, must be converted according to the automated mechanism in the Changeover Umbrella Law, or, if it is more justified from a professional perspective, should be modified either in the Budget Act passed in the first year after changeover, or in the Legal Status Act.

For the calculation of longer-term average income (e.g. income determined on the basis of data of the previous four quarters) in accordance with the applicable labour provisions when payrolls still temporarily contain both forint- and euro-denominated quarterly data, forint amounts must be converted at the irrevocably fixed exchange rate.

At a macroeconomic level (when the absolute amounts contained by the payroll systems are converted, or when multipliers are used) rounding could take place during the conversion process, or when the multipliers are applied. For items determined in absolute (forint) amounts, rounding will be set in the Remuneration Act, while a separate rule will have to be set for remuneration items derived from the application of multipliers. Only a simple conversion of salaries at the irrevocably fixed exchange rate will occur on the day euro cash is introduced; any subsequent remuneration base increase is handled separately, on a retrospective basis if necessary.

Payroll systems must be prepared for payroll accounting in euro (and in both currencies for a limited period of time) immediately after €-day. The Treasury should draw up a separate conversion plan for payroll accounting.

After irrevocable fixing of the exchange rate, during the months preceding changeover, employees will receive, in addition to the mandatory, traditional forint-denominated statements, forint-denominated payroll settlements converted into euro which will assist them in understanding calculation in the new currency. For about a year after €-day, gross and net salaries should be displayed in both currencies, using the irrevocably fixed exchange rate.

3.3.6 Tasks related to the changeover of the accounting system

The accounting system is indispensable for the functioning of the economy as a whole, and the completion of the tasks related to the conversion of accounting records is essential for a smooth changeover.

The main challenges and activities in this area are as follows:

- Identifying the potential impact of changes in the accounting provisions on the taxation system and tax revenues.

- Identifying the potential impact of changes in the accounting standards on other, accounting-related provisions, or those provisions which are based on accounting data, and take into consideration any required modifications to accounting regulations which are necessitated by modifications to other provisions in relation to changeover.

- As regards accounting for changeover costs, the main goal is to find a solution which could help companies to avoid bearing all conversion costs at once (e.g. to make provisions in advance, or to accrue these expenses as they occur, or account for them as capitalised value of foundation-reorganisation).

3.3.7 Conversion of statistical systems

In addition to the modification of the accounting system, the conversion of the statistical systems has a great impact on the economy. It is particularly important to have access to comparative statistical data for the periods preceding and following changeover, especially during the transitional period.

The most significant tasks in this area are listed below:

- One fundamental task related to the statistical information system is to convert all value-based data to euro in data collections, publications and statistical databases.

- A changeover action plan needs to be incorporated into the strategic concept that is being developed by the Central Statistical Office (CSO).

  – In the first half of the period leading to the adoption of the euro appropriate concepts and plans covering data collection, data processing (IT) and information will have to be worked out. From €-day, all data collection performed by the CSO will be in euro.

  – For value-based data collection, the ranges of euro values and the rounding rules to be applied on questionnaires will be changed.

  – With regard to methodology and data collection, appropriate conditions must be established to ensure that, among other things, the effects of changeover to the euro are also measured and analysed.

  – A list must be produced of the re-calculable time series and indicators, and the management, conversion, changeover and time horizon of statistical time series and databases must be identified along with their publication techniques. Methodological guidelines should be developed for the conversion techniques.

– It needs to be determined which time series should be generated in ‘euro area’ and ‘non-euro area’ breakdown.

– Users and the media will have to be informed in due time regarding the statistical consequences and applied methods of a changeover.

It is advisable that all methodological and IT solutions be in place two years before changeover, while preparations regarding the conversion of historic time series should be commenced one year before €-day. The CSO is responsible for developing plans, but the work to be done requires close co-operation with institutions, which, like the CSO, are responsible for data collection and the generation of statistics at the national level (e.g. MNB).

3.3.8 Conversion of the budgetary and reporting system of the central government

Following changeover, all participants of the public sector and the public finances will start to operate on a euro basis; therefore their budgets and their reports will have to be generated in euro.

In addition to having to keep data records in euro for the period following €-day, archived historic data also need to be converted and stored in euro in order to produce financial planning and reporting time series as required.

Currently, as legally required, all stored data are defined in HUF millions, to one decimal place. In the case of changeover to the euro, in order to minimise errors deriving from rounding, data should be stored in a range which is as close to the currently stored values as possible. Consequently, the best way to store data would be in € thousands, with no decimal places, or to one decimal place.

3.3.9 Conversion of government debt

Similarly to the transformation of the securities outlined in Section 4.2.4, conversion of government debt impacts two major areas: one is the identification of business and settlement days and a conversion method to convert debt amounts to euro, the other is the renomination of new, already euro-dominated government securities (redenomination and renomination).

An important issue to consider is the cost of the selected procedure. Of all the compatibility-related measures, redenomination is the most cost-intensive. The higher the number of the series, the larger the amount of compensation payments resulting from rounding will be. Redenomination costs are expected to range between HUF 0.2 and HUF 1.8 billion.

Following the redenomination process, depending on the irrevocably fixed exchange rate, the previously round-number denomination values of the converted series could become fractional denomination values. A decision must be made whether to renominate debt securities or not. The conversion of the new, fractional denomination values into single denomination may require additional rounding, and, as a consequence, result in new compensation payments and significant additional expenses.

3.3.10 Special tasks involved in the preparation of local governments

As a sub-system of public finances, local governments face significant challenges in relation to changeover, both as parties applying legislation, and as legislators. The main strategic directions of this work can be summed up as follows:

- Although local governments are closely linked to public finances through their reporting and accounting systems, they use a large number of independent systems to carry out their tasks and perform their duties, therefore, they must make arrangements for the changeover of these systems;

- In order to address local issues not regulated by law, and, based on the powers vested in them by the law, to execute the law, local council bodies are empowered to pass decrees. It is critical that local governments receive appropriate assistance and guidance in the modification of decrees.

Due to local governments’ wide scope of authority and range of tasks, all relevant sectors must actively participate in the distribution of information to local governments.

3.4 Additional tasks in the year to come in relation to a changeover of the public sector

- Tasks listed under Section 3.3 are all linked to the date of €-day, and none of them can be commenced earlier than the third year preceding €-day. Therefore, in the absence of a specific target date, the main activities that can be carried out in the next 1-1.5 years are to identify specific tasks, specify decision points and alternatives, and define the 'euro-dependency' of provisions.

- Another important area of changeover is the transformation of the institutional structure in the public sector. This issue will be addressed in detail in the next version of the National Changeover Plan. At this juncture, we merely refer to a few areas which will represent major challenges for nearly all institutions during changeover:

  – Conversion of the basic budgeting and reporting systems of budgetary organisations;

  – Comprehensive conversion of the accounting system of budgetary organisations, which must also reflect the above changes;

  – Conversion of remunerations and salaries of the employees of budgetary organisations;

  – Conversion of IT systems as necessitated by the above changes.

4 Changeover in the financial sector

The changeover to the euro will impact the financial sector in the most striking manner. Together with the regulatory authorities, all financial sector participants will have a substantial role to play, because essentially, along with the retail sector, the financial sector is the most important channel through which the general public will also be involved as a direct participant in changeover. Some of these tasks are to be handled within the remit of Magyar Nemzeti Bank (e.g. organisation of cash changeover), while others require the transformation of the operation of the institutions affected (e.g. credit institutions).

4.1 Parties concerned

Preparations in the financial sector affect the financial infrastructure as a whole, including

- Magyar Nemzeti Bank (central bank of Hungary);
- Ministry of Finance;
- Hungarian Financial Supervisory Authority;
- Credit institutions and financial enterprises;
- Investment companies;
- Investment funds and their managers;
- Venture capital funds and their managers;
- Pension funds, healthcare insurance funds and their managers;
- Stock exchanges;
- Insurance companies, reinsurance companies, insurance intermediaries;
- Hungarian Treasury, Government Debt Management Agency;
- Entities comprising the financial infrastructure, including clearing houses, payment and security-clearing systems, central securities depository and central counterparty;
- Magyar Posta (the Hungarian Post);
- Cash processing companies;
- Bureaux de change;
- Cash transfer service providers;
- OBA (the National Deposit Insurance Fund) and BEVA (Investor Protection Fund);
- County development funds;
- Population.

4.2 Tasks

4.2.1 Cash changeover

The main goals of cash changeover is to prepare for and implement changeover in a manner that minimises inflationary perception, is consumer-friendly and engenders the minimum risk of disruptions in cash circulation.

Until €-day, the forint remains the exclusive legal tender in circulation, that means that acceptance of forint notes and coins at nominal value is mandatory in Hungary until €-day.

From €-day a short transitional period, the so-called dual circulation period, begins when both forint and euro cash are accepted as legal tender. In this period, forint and euro conversions are based on the irrevocably fixed exchange rate, and no other fees or commissions can be charged for exchange. Customers may pay both in forint and euro cash. As a rule, customers receive back all change in euro and vendors may only deviate from this rule in exceptional cases.

After the dual circulation period is over, forint cash will no longer be the legal tender, and euro cash will remain the only legal tender in Hungary. Forint cash, however, will not lose its value: it can still be used to make deposits into bank accounts, and can be exchanged to euro cash under certain conditions for a period of time, yet to be determined. Similarly to the practices of other countries, the legislator must determine the role of the MNB, credit institutions, the Hungarian Post (and potentially other institutions) in the conversion process of those forint coins and notes remaining in circulation after the end of the dual circulation period. Forint cash shall remain convertible over a long term: in accordance with the prevailing law, withdrawn coins and notes can be exchanged for 5 and 20 years, respectively, at Magyar Nemzeti Bank.

Cash distribution and processing in Hungary is a joint responsibility of the central bank and market players. As this model further evolves, the current and expected Community rules with respect to bulk cash logistics must be closely monitored during the forint period as well.

Taking into consideration the principle of equal opportunity to be applied across the country during preparations, arrangements should be made to review the cash services to be provided to citizens. It is also important to separate the services to be provided as public service from those to be provided on competitive terms. From the perspective of retail services, the changeover will be a great challenge.

As the country prepares for changeover, an important issue to be decided is whether Hungary should use the two smallest denomination coins (1 and 2 euro cents). If Hungary decides to adopt the Finnish and Dutch approach (of not using the 1 cent and 2 cent euro coins), the amount of cash purchases must be rounded to the nearest multiple of five cents. This decision should be made relatively early, because each option requires a fundamentally different approach for the design, production and distribution of euro cash and the logistical planning of the currency switchover. Furthermore, because only a timely decision permits a timely preparation of the economic actors for the changeover.

4.2.2 Conversion of systems supporting non-cash payment and settlement transactions

General issues regarding financial infrastructures

The conversion of the domestic payment and settlement systems takes place on the assumption that these financial infrastructures will accommodate to and join the systems and rules already in place in the euro area. In addition, domestic participants should reconsider their business models in preparation for changeover, and explore how these challenges could serve to benefit them. Hence, converting the domestic systems does not just consist of a simple one-sided adjustment to the requirements: it entails a strategic reconsideration of the situation and can help determine the future orientation of these systems as regards their possible medium- or long-term role in an increasingly competitive environment in the broader area of European service providers.

The National Changeover Plan of Hungary should be adjusted to reflect the expected state of the euro area at the time of Hungarian changeover. Currently, several large-scale projects focusing on the design and construction of a common infrastructure (e.g. TARGET2 Securities) are being elaborated. In addition, approximation of procedures and rules aimed at integration within the single market is under way as well (e.g. SEPA: Single Euro Payment Area). As Hungary prepares for SEPA, it is essential that the NEC receive regular reports on the status of SEPA migration, and on the work carried out by the Hungarian SEPA Association.[7]

With regard to policies governing working days, current Hungarian practices need to harmonised with the European systems.

Conversion of the domestic Real Time Gross Settlement System (VIBER)

Upon entry into the euro area, the domestic and cross-border real time gross euro payment transactions of all contractual partners of the MNB will be processed through TARGET2, the shared single Eurosystem IT platform. Domestic participants will open an account with the MNB, the central bank responsible for the ‘Hungarian component’ of TARGET2. From the perspective of

7 In the near future, details will come into focus with regard to a National SEPA Migration Plan to be developed by the National SEPA Committee established by the community of domestic banks, and its relevance to the euro changeover programme will also be determined. It would be useful to examine this issue in more detail in the National SEPA Migration Plan.

the MNB it is important to estimate the size of its clientele after changeover, and to identify those VIBER participants that may not wish to handle large turnover through the domestic component of TARGET2 after entry (because for example the parent banks of certain banking group members wish to centralise payments and liquidity management within the euro area).

On entry, ancillary payment and settlement systems currently linked to VIBER (e.g. ICS, KELER), must be compatible with the settlement mechanisms available in TARGET2.

As TARGET2 is a shared platform, its implementation does not require the domestic development of a new (component) system. However, the MNB and all other direct potential partners of TARGET2 (credit institutions, other payment and settlement systems settling their payments on the common platform) should undertake certain IT developments to ensure the compatibility of their systems with the common platform.

Conversion of the domestic securities clearing and settlement system operated by KELER

Changeover does not require connection of the securities clearing and settlement systems of KELER to any central, shared European infrastructure. The future of the securities clearing and settlement infrastructure operated by KELER depends on KELER's future strategic plans and market opportunities. Entry to EMU creates a new market environment for KELER, and therefore KELER needs to consider its options as to how it should adjust to the changing circumstances.

At the same time two issues are apparent today that may force KELER and its clients to adjust. The securities clearing and settlement system operated by KELER will join TARGET2 as an ancillary system. Another important issue for the domestic securities clearing and settlement system could be the TARGET2-Securities (T2S) project launched by the Eurosystem. Its main goal is the implementation of a securities settlement platform for central securities depositories within the euro area. While joining T2S will not be mandatory for national central securities depositories, market constraints (efficiency considerations) may lead to accession. This scenario may eventually require substantial developments on the part of KELER and its clients.[8]

Monetary policy instruments of the MNB – issues regarding infrastructure

Joining the euro area will alter Hungary's monetary policy instruments, as the MNB will be required to adopt the policy instruments applied throughout the Eurosystem. This has significant implications in terms of infrastructure as well: in addition to minor technical changes in the tender procedures of the MNB and in settlement of its transactions, the MNB and its counterparties (credit institutions with reserve requirement) will have to interact with each other regarding the eligibility of central bank collateral in a brand new and much more complex system.

As the scope of eligible collateral will significantly broaden on accession to the euro area (bank loans, foreign securities, etc. will also be eligible), the MNB will no longer be able to exclusively rely on KELER to perform its collateral management tasks. If the foreseen central collateral management system (CCBM2), currently under development by the Eurosystem (still in its initial phase), is completed by the time of the Hungarian euro changeover, the necessary developments related to collateral management will mean accession to the planned new system both by the central bank and its counterparties. However, if changeover takes place before launch of the new shared system, the MNB and the credit institutions should be prepared for the establishment of their own collateral management system. Because of the need to prepare for new range of eligible collateral, continuous monitoring of the acceptance criteria defined by the ECB is essential.

With regard to the set of monetary policy instruments and the minimum reserve system of the MNB, two important changes will result for credit institutions. On the one hand, the current 5% minimum reserve ratio will have to be reduced to the level applied by the ECB (currently 2%) by the time of entry at the latest, which may affect the liquidity management flexibility of credit institutions. On the other hand, from euro area entry at the latest the MNB will start to apply the same reserve maintenance period as the ECB.[9]

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8 At this time the TARGET2-Securities projects is in its public consultation phase, having published version 1.0 of its user specification. The Governing Council of the ECB made the formal decision to launch the system development in the summer of 2008.

9 While the currently employed reserve maintenance periods are based on calendar months, in the euro area maintenance periods are determined at the ECB's rate-setting meetings.

From €-day on, MNB will use the common policy instruments of the Eurosystem, meaning, that the current MNB two-week maturity bond will be replaced by the one-week maturity central bank loan, provided that the current Eurosystem set-up remains unchanged. If, similarly to the current situation, the domestic banking system's main feature continues to be a liquidity surplus, participants with excess liquidity will have to place their excess liquidity on the euro money market.

Currently the length of the availability of the marginal lending facilities of the central bank (overnight deposit and credit) is shorter than that of the Eurosystem's overnight facilities. Consequently, and also because of the TARGET2 entry, credit institutions must prepare for an extension of the intraday liquidity management period.

Compared to the central bank instruments currently employed, a potentially wider range of instruments will be available for the MNB's counterparties. Thus, central banks within the euro area provide longer term (currently three-month maturity) loans to their counterparties, and they can also use FX swaps for liquidity management. In addition, both the MNB and its counterparties will have to prepare for the adoption of the tender procedures applied by the Eurosystem.

Conversion of the Interbank Clearing System (ICS)

GIRO, the operator of the ICS, has begun a comprehensive development of the ICS in relation to euro changeover. Its goal is to ensure that by €-day the ICS should be capable of supporting the management of euro retail payments.[10] Depending on decision, the ICS service may support the clearing and settlement of SEPA credit transfer and direct debit transactions, and all potential intermediate solutions which ensure compatibility with SEPA models.

Postal clearing centre

Magyar Posta (the Hungarian Post) is a significant player in the area of payment transactions, accounting for 70 percent of retail cash payments and transfers of the Hungarian payment transactions. Magyar Posta has its own clearing centre, which settles the cash transaction turnover between the Posta and banks (or other participants), and settles net balances in VIBER. Among other things, the settlement of these balances will be performed in TARGET2. Magyar Posta, however, does not qualify as a key payment system, and is not expected to become a 'ancillary system'. Therefore, the TARGET2 conversion will only affect the Posta in its system member capacity.

Bankcard settlement

The majority of bankcard transactions related to domestic cards are currently settled through the use of clearing services provided by international card companies. On the settlement side, switching to euro is not expected to result in a significant financial burden on the concerned players. At the same time, an issue may arise in connection with domestic card transactions which are currently settled in forint: will the settlement of these transactions remain in Hungary, or will the card companies and member banks decide to merge it with international settlement mechanisms? In this regard, the decision is up to the participants, and is expected to be based on cost efficiency criteria.

Since mutual card acceptance in Hungary is based on brand names of international card companies on the card issuer side (a national card system has not been in operation), a solution is already in place regarding the international acceptance of cards issued in Hungary. On the acquiring side, the operation of SEPA-compatible products (currently comprising the VISA or MasterCard brand names) is also ensured.

The conversion of merchant POS terminals is likely to pose a significant logistic challenge to the bankcard infrastructure. Such conversion will have to be performed by merchants, acceptor banks and service providers in the days immediately before €-day.

10 The Functional Specification of the InterGiro development project (Phase I and Phase II of which are to be implemented in 2008 and 2010, respectively) includes the development of a multi-currency settlement platform functionality.

4.2.3 Responsibilities of credit institutions and financial organisations with respect to account management

Being universal institutions, the majority of credit institutions will be the scene of all types of changes affecting the financial sector. As well as their account management responsibilities outlined in this section, they play a major role in the cash changeover process, in the execution of modifications affecting the payment services, and the capital market.

In addition to the general goals of this sector regarding changeover, the banking sector aims to find customer-friendly solutions regarding its account management activity:

- To provide continuous, advance information to customers on changes affecting their accounts;
- To develop a communication methodology based on common principles among banks, with a view to avoiding any distortion of competition;
- To apply conversions without price increases – in accordance with the provisions and, by means of the dual display of prices, in a way that allows customers' verification;
- To retain existing account numbers for customer convenience.

The NEC will outline professional recommendations for financial sector participants which will serve as guidance for a smooth changeover. For the changeover of the payment and settlement systems, all forint bank accounts and securities' deposit accounts must be converted to euro, therefore, it is particularly important to apply coherent principles in this process.

Bank accounts, deposits, loans, securities deposit accounts

Currency conversion

- On €-day forint accounts are automatically converted to euro at the irrevocably fixed exchange rate, according to provisions on rounding, with the existing HUF account numbers remaining unchanged.
- By mutual agreement between the parties, following the announcement of the irrevocably fixed exchange rate, account balances may be converted at the irrevocably fixed exchange rate even before €-day.
- The data content of statements and customer notices must be determined. Immediately following announcement of the irrevocably fixed exchange rate, the dual display of transaction amounts must be in place.
- If a customer has both forint and euro accounts, as a rule, the forint account will be converted to a euro account based on the principle of customer-friendliness. The account previously managed in the national currency remains the main account because this will cause the least disturbance in the continuity of regular transfers and collections made on the bank account of the customer.

Interest

- In accordance with the principle of continuity of contracts, interest rates of fixed current accounts, deposits and loans cannot change due to changeover to euro.
- Forint-based, interbank benchmark interest rates must be replaced by the new benchmark rates (e.g. EURIBOR instead of BUBOR, EONIA instead of the O/N rate). Similarly, the forint-based central bank base rate will be replaced by the ECB base rate.[11]

Certain issues related to preparations by credit institutions

- Display of liabilities in the period following announcement of the irrevocably fixed exchange rate and in the period following €-day;

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11 The main refinancing instrument of the ECB. Under the prevailing conditions, the one-week maturity central bank loan.

- In view of the inviolability of nominal interest rates, preparation for the conversion of transactions related to existing (and over-arching) credit and loan contracts, mortgages, subsidised housing loans, all concluded on the basis of previous provisions and the old currency;
- Currency conversion of all existing customer conditions, fees and limits (e.g. bankcard, interbank, money laundering values);
- Conversion of existing intrabank limits, approval limits and ATM cash limits;
- Preparations for the management of collateral contracts after a changeover; including currency conversion of collateral assessments, related insurance, guarantees granted, etc.;
- Preparations for the conversion of issued and booked bank instruments;
- Development of special procedures regarding cash-in-transit, pre-dated orders, and pre-printed orders;
- Identification of tasks related to customer information, and development of operative schedules for their completion.

4.2.4 Tasks related to securities market changeover

An important principle to observe during changeover is that the rights of security-owners as embodied by the relevant security must remain unchanged. The cash-flow and the existing underlying and collateral positions must also remain intact.

From the perspective of the securities market, the conversion of specific instruments poses a challenge at the time of the changeover to the single currency and several options are available for such conversion. When selecting a redenomination method the main difference to be reckoned with is where rounding errors or losses are expected to occur: on the level of individual or institutional investors, custodians, or the entire volume of the issue. According to experts and KELER, the most reasonable method is the ‘bottom-up’ method recommended by the European Commission, and the redenomination option on the level of individual holdings. Rounding errors are smaller if the conversion is performed individually for the owners: in this case the maximum rounding error by a bond owner would be half a cent or euro depending on which unit the rounding takes place.

The issue of how domestic and international settlement systems can cope with the changes should also be considered. Market players and clearing houses should be given sufficient time to prepare.

Custodians holding the most substantial portfolios should be identified, and a co-ordination forum should be established where the most affected market players can prepare for the redenomination process in close interaction with each other, as well as with KELER and the Budapest Stock Exchange.

With regard to bonds, KELER and for other securities, issuers will be responsible for conversion. The Ministry of Finance and the Hungarian Financial Supervisory Authority will develop procedures for the conversion of printed securities. By law, KELER is entitled to develop its own conversion procedure. Legislation should determine whether paper-based, unconverted securities may remain.

Due to the special nature of the instruments, the conversion[12] of securities and investment fund units may differ from the general practice. It appears reasonable that recommendations regarding rounding should be prepared by the organisation responsible for conversion, while recommendations regarding trading volumes should be elaborated by the BSE (listed instruments) and KELER (OTC instruments). It would also be useful if all concerned could convert the instruments without changing the ISIN code.

The changeover of stock exchange trading also implies the conversion of spot and derivative markets, the definition of potential holidays, price gaps and contracts; as well as any other modifications to trading rules. Rules and methods are to be developed by the BSE and KELER.

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12 Rounding rules, smallest possible nominal values and trading volume need to be determined, and decision must be made as to which currency the papers can be converted to.

During the conversion process, the formation and contents of different market indices and fixings are to be reviewed by the MNB or the producers of indices, and they also examine the possible impact of their potential changes on the market.

4.2.5 Conversion of insurance products

Community law stipulating the continuity of contracts applies, insurance policies remain intact and effective following €-day, the serial number of policies remain the same, and a physical replacement of policies is not required due to changeover. Exceptions are unit-linked life insurances. Fee collection orders or customer agreements will remain the same, except that forint amounts will be converted to euro.

Life insurances

For the existing portfolio of life insurances, insurance companies must make arrangements to ensure that their annual compulsory disclosure stipulated by the Insurance Act falls on the second half of the year, as close to €-day as possible. This notification will already be generated by insurance companies with a dual price display. For those entitled to a life annuity, additional provisions may become necessary.

If the original offer of a client regarding a new policy was denominated in forint, but the quote and policy generation take place after adoption of the euro, the client's policy must be generated in euro.

In addition to risk life insurances, unit-linked life insurances, which are similar to other investment products, must be treated separately. With regard to the securities in the asset portfolio backing these policies, a decision must be made whether they require a conversion to euro, and if so, what specific preparation tasks are involved in conversion.

Accident and health insurances

For accident and health insurances, the Insurance Act does not stipulate an annual disclosure requirement, therefore, insurance companies must send a notice to the policy owners that displays post-changeover fees and insurance premiums in both euro and forint.

Non-life insurances

For property and liability insurances, the Insurance Act does not stipulate a compulsory annual disclosure requirement either, and the majority of insurance policies have an undetermined maturity. This implies that insurance providers are not obliged to send notices to their clients unless the premium payable by the client is adjusted. For policies where insurance fees are adjusted and value date falls on the half year preceding €-day, insurance companies must send out notices to their clients which contain, both in euro and forint, the client's fee, all insurance policy values, limits and deductibles. For all other policies, including those with unchanged insurance fees, insurance companies must send to their clients the notifications described above during the month of January.

After the filing of claim reports, during the claim assessment and settlement process as early as six months preceding €-day, the amount of the insurance claim must be shown in both currencies.

Insurance companies must notify all policyholders receiving accident-related disability benefits on the euro equivalent of their respective benefits during their last benefit payment before €-day.

4.2.6 Private pension funds, voluntary mutual insurance funds and occupational pension providers

Private pension funds, voluntary pension funds, voluntary mutual health insurance funds, mutual aid funds and occupational pension providers face the same conversion tasks as other financial providers.

In this phase of the work, the most important tasks to be addressed during the fund accumulation period include:

- Converting and revaluing securities in the portfolios of the funds;
- Making arrangements to convert yields and other time series, providing historic time series;
- Archiving historic yield data;
- Converting benchmarks and indices;
- Recalculating benchmark yields;
- Recalculating investment units;
- Revising investment limits stipulated by legal provisions, adjusting the relevant arrangements to the euro environment;
- Adjusting the investment policy of funds to the euro environment: expected developments in their investment policy, revaluation of the 'currency matching' system;
- Informing customers with respect to the changing requirements;
- Providing customers with advance and follow-up information on the assets managed, the changing portfolio, and the expected service fee equivalents;
- Portability analysis of pension collaterals: the so-called 'Portability Directive', which is currently under preparation, requires that this non euro-specific issue is also considered, because on entry this issue will undoubtedly acquire more significance.

A more detailed analysis of the so-called payment phase can take place after the Parliament passes, presumably as early as in 2008, the proposed amendments to legislation on the benefits provided by private pension funds. Based on this, the impact of changeover should be analysed from at least the following aspects:

- Technical interest rate;
- Index-linking requirements;
- Investments of reserves;
- Portability of pensions.

Subsequent phases of preparations need to assess whether the expected date of the euro adoption and the massive private pension fund payment obligations becoming due in 2013 pose any special challenges. Potential proximity of the dates of euro adoption and the maturing pension fund benefits may require the recognition of certain specific tasks, which result from the proximity of the launch of these two systems, and the impact they may have on one another.

4.2.7 Information technology changeover in the financial sector

Conversion of the IT systems will play a central role in the financial sector as well. Inter-operability of the connected IT systems should be a key focus, and ensuring that domestic and international payments can be executed is a vital task.

The changeover of financial service providers should not be looked at as a mere 'programming task'. The task involves the euro conversion of their internal account management systems, as well as their satellite systems. Within this scenario the following issues must be addressed individually:

- Conversion of the banks' ATM and POS networks: this is not a development task only, but also a logistics challenge, and includes the day-end settlement of forint transactions on the last day before €-day. A similar task involves the solutions, the accounting and the book-keeping for so-called in-transit items;

- Preparations must be made to revalue the securities on €-day, and to handle in-transit orders and other, unsettled items;

- Participants of the insurance market also have to solve several problems that may arise from their settlement transactions going back for several years.

Customer relations will also change for these institutions. In this area they must prepare not only for the revision and modification of their contracts but also for the modification of the procedures and methods of their institutional client information system, with special regard to account statements and other notices.

The success of the conversion fundamentally depends on the respective institution, but it should be noted that the IT systems affected by conversion are generally supplied by contractors. There are several affected organisations in the financial sector, where the applications are supplied by their parent companies, and only their parent company is entitled to order and co-ordinate any enhancements or developments.

During IT conversion financial infrastructures, operators of payment systems and participants of the financial sector will play an outstanding role.

4.2.8 Responsibilities of the Hungarian Financial Supervisory Authority (HFSA)

In relation to changeover, the responsibilities of HFSA cover four broad areas:

- Regulation;
- Consumer protection;
- Ensuring the prudent operation of institutions;
- Preventing market disturbances.

The following specific tasks need to be addressed within these four, main areas:

- Supervised institutions require control and support as they prepare for changes in the financial, capital market, payments, IT, accounting and reporting provisions and their individual conversion tasks; institutions' changeover plans need to be examined;

- The comprehensive effects of changeover on the expenses, profits, operational, market and credit risks as well as capital requirements of financial service providers need to be identified;

- Adaptation of IT systems and the development of emergency plans should be monitored;

- It must be controlled and ensured that supervised institutions observe the fundamental principles of changeover and comply with the relevant provisions;

- Special significance should be attached to compliance with the continuity of contracts principle, which stipulates that changeover may not be legal grounds for any unilateral termination or modification of contracts;

- Compliance with the customer-friendly principle must be controlled in the areas of fee assessment and the inevitable rounding exercise involved in conversions, with special regard to values which cannot be defined in euro cents;

- Effective execution of the dual price display system must be controlled in the practices of the supervised institutions;

- Issuing of supervisory recommendations, resolutions and executive memoranda may become necessary.

4.3 Tasks for the year to come

The Magyar Nemzeti Bank is to decide on the issue of domestic or the foreign production of euro coins by the end of 2008. Design and consultation principles as well as the actual work related to the production of euro coins with a Hungarian side are scheduled to be identified in the first half of 2009.

In addition, continuous efforts should be made to review the feasibility of measures facilitating the conversion of retail forint cash more to electronic means of payments and the use of cash-reducing alternatives. Steps should be taken to reduce national cash demand, and methods to facilitate this endeavour should also be developed. Another task of a continuous nature is to review the feasibility of measures facilitating the increased supply of small denomination banknotes (for the loading of ATMs, the tills of credit institutions and retail post office tellers), and the integration of cash-related Community rules in the domestic model by updating domestic provisions.

5 Euro changeover of corporations

An all-important aspect and goal of the preparations for changeover is to facilitate well-prepared and problem-free conversion by corporations to the new currency. This requirement is important throughout the entire economy. Businesses also play an important role in terms of the simplification and public acceptance of the conversion processes. Experiences of Member States which have already converted to the euro also confirm that the participation of businesses, and especially retailers, is particularly significant.

The corporate sector in general, and the retail sector in particular, are on 'the front line' of changeover considering their role in cash conversions and the conversion-related services they provide to citizens. In consideration of this, businesses should be provided with clear and precise instructions and guidance in order to facilitate efficient preparation.

5.1 Parties concerned

Participants directly affected by changeover

Introduction of the euro affects the day-to-day operations of all businesses. The objective of this section is to provide them with guidance with regard to their preparations. Special attention should be paid to businesses in direct contact with citizens, as this relationship is also a communication channel. Of all businesses, changeover particularly affects those which are involved in trade or commercial services.

Companies are diverse in terms of ownership structure, size (equity, number of employees, geographic area), activities and interests. At the same time, there are some general processes in the day-to-day operations of all businesses, which are affected by the introduction of the new currency. The euro represents a new regulatory and business environment for all businesses.

External organisations affected by changeover

- Public administration organisations (ministries, APEH – the tax authority, Hungarian Financial Supervisory Authority, National Consumer Protection Authority);
- MNB;
- Organisations for the representation of business interests.

5.2 Tasks

5.2.1 Responsibilities of businesses in relation to changeover

The primary task of all businesses is to take account of all the changes necessitated by the introduction of the euro. Businesses must resolve technical tasks and face strategic challenges in relation to the introduction of the single currency, but in return for their efforts they will be able to operate in a dynamically expanding and lower-risk environment, which provides more favourable financing options and new possibilities.

Tasks related to information technology

IT systems are key factors in the routine operation of businesses. As the new currency is introduced it is vital to ensure uninterrupted business operations, i.e. that payroll, accounting, cost calculation, decision support management information systems are euro-compatible (as discussed in detail in Section 2.2, and all forint-based databases must be converted to euro. As the adaptation of IT systems is cost intensive, for new investment projects it is worth considering, irrespective of a target date, whether the applications can manage the new currency, or they can be supplemented with such a module.

Monitoring changes in the legislative environment

As several provisions defining the operational environment of businesses are expected to change as a result of euro adoption and new, temporary resolutions may come into force, companies must pay close attention to these changes. As an example, tax and accounting provisions will be subject to several modifications. Businesses must convert their subscribed capital, apply rounding rules during the conversion, etc. In addition, after the announcement of the irrevocably fixed exchange rate, legislation will make the dual display of prices mandatory.

Proper management of cash changeover

In the periods directly preceding and following €-day, retailers must be able to handle the new currency properly, and they need to make arrangements to have enough cash on hand. This means, that in the period leading up to €-day, all retailers must assess the amount of cash they need, and they have to ensure timely sub-frontloading through their banks. International experience shows that this is one of the key issues. To accelerate the pace at which forint cash is withdrawn from circulation after €-day all retailers must be able to accept forint cash while giving back change in euro.

Security aspects of cash transport and delivery are particularly important. During the dual circulation period, retailers must cope with the logistics challenge of managing both currencies simultaneously. This will be a particularly great challenge for businesses with high cash turnover.

Conversion of special devices

- Conversion of tills and taxameters;
- Preparation of all cash vending machines;
- Conversion of public transportation tickets.

The introduction of the euro necessitates the conversion of all tills and taxameters because these devices are forint-based. Of the currently operating tills and taxameters only a few support the euro, the majority are unable to handle it. Through software replacement some of these devices (approximately 1/3) may be capable of handling the euro, but the rest of them require either manual conversion, or total replacement. The announcement of the tax authority (APEH) of 23 January 2006 identifies the features of those devices which are capable of supporting the euro. As it is in the retailer's interest not to delay the required, costly replacements until the last moment, the above aspects are worth considering when new equipment is purchased.

Similarly, in the cases of cash vending machines and ticket vending machines the effects of the changeover to the euro should also be considered during new investment projects.

Efforts must be made to ensure that all devices are capable of supporting the new currency by €-day.

Supply of information to partners of companies

In addition to rendering their internal systems euro-compatible, businesses are responsible for the information and preparation of their internal and external partners.

Businesses with cash turnover should train their employees so that they can manage the euro smoothly after €-day, and that they are familiar with the security features of the banknotes.

It is the interest of all businesses to provide their customers with appropriate information on the introduction of the euro, and to ensure the transparency of the prices of products and services defined in the new currency. The dual display of prices is intended to establish this confidence. The consumer protection agencies will be primarily responsible for combating unjustified price rises.

Introduction of the euro affects suppliers of companies as well. If the businesses operate co-ordinated information technology or record systems with their suppliers, co-ordinated revision of those systems should be initiated in a timely manner.

The tasks presented above are described in more detail in several sections of the National Changeover Plan. Sections 2.2., 3, and 4 are particularly helpful for businesses in providing more information regarding the changeover process.

5.2.2 Tasks of external organisations affected by changeover

Institutions of the public sector, organisations for the protection of employees and the relevant civil organisations also assist and provide guidelines to retailers by providing a framework of the preparations through the establishment of a legal environment, and the issue of recommendations and guidelines.

General tasks facilitating preparation

- Distributing professional information in the communications of chambers, professional organisations and organisations for the representation of business interests;
- Obtaining and sharing international corporate experience;
- Providing training.

Expected changes in the operational environment of businesses in relation to the introduction of the euro

Legislative background

Switching to the euro will result in the modification of the legal environment, which requires particular attention on the part of all economic participants. New, temporary provisions directly connected to the process of euro adoption are also to be expected. Provisions can only be amended and forint items in all legal instruments can only be converted when the irrevocably fixed exchange rate is announced. Therefore, in this period the task of reviewing the relevant legal material pertaining to their operations should be a priority for all businesses.

All businesses will have to cope with the modification of accounting provisions as the forint-basis will change to euro-basis. The most fundamental change is the conversion of stock data to euro, as the presentation of accounts is to be in euro after €-day. Accordingly, accounting, financial and other record systems have to be closed in forint on the day preceding €-day, and data must be converted to euro; subjects to the accounting law must produce an accounting report and a separate balance sheet, and ensure that their record systems opens in euro the following day.

Instructions must be given to convert the subscribed capital of businesses. On entry, based on the exchange rate, the forint-based subscribed capital of companies filed with the Registry Court must be converted to euro. The memorandum and articles of association of the company must also be revised. It should be considered whether the new companies that are founded in the period directly preceding €-day when the irrevocably fixed exchange rate is already known, should also present their subscribed capital and nominal value of their shares in euro.

Compliance with the continuity of contracts is essential for a smooth changeover. All contracts concluded before €-day remain in force after €-day while all forint amounts contained therein are converted to euro at the irrevocably fixed exchange rate. See Chapter 1. for more detail on the main principles.

Dual display of prices

The main purpose of the dual display of prices is to avoid price increases resulting from introduction of the euro, and to assist in the familiarisation of consumers with the new currency on a continuous basis.

- Dual prices are to be displayed whenever the prices of products, fees for services, invoice totals and other amounts are shown, and whenever products and services are promoted;

- Up until €-day the display of euro prices is for information purposes only, and the same is true for the display of forint prices following €-day;

- Dual price displays must be unambiguous, cannot be misleading and they must be placed in plain view.

Setting 'fair prices'

One of the biggest priorities of the changeover is to avoid unreasonable price increases. Any price increase connected to the new currency would meet the disapproval of citizens, and render social acceptance of the new currency difficult. At the time of €-day, changeover should have a neutral effect on prices. Agreements should be made with chambers of commerce, professional and interest representation organisations, with the involvement of consumer protection organisations as well, to implement and monitor fair pricing. At the same time, however, efforts must be made to ensure that these pricing-related agreements do not violate competition rights.

Rules of corporate conduct will be specified by a code of conduct which is to be developed later. The goal is to make procedural rules easy to understand, and to improve confidence between consumers and businesses. The code of conduct will be developed by chambers of commerce, professional and interest representation organisations, with the involvement of consumer protection organisations, and businesses will decide on a voluntary basis whether they wish to observe and apply its instructions in their business practices. All businesses volunteering to adhere to the code of conduct will be entitled to display a sign (logo) indicating so. The control of citizens, as well as interest representation and consumer protection organisations will verify whether those displaying the logo in effect adhere to the instructions of the code of conduct in their business practice. Display of the logo is expected to improve consumers' confidence in the retailers which volunteer to subject themselves to such discipline. Application of the code of conduct was beneficial in other European countries and contributed to establishing confidence during a sensitive period.

5.3 Recommendations of the NEC for the changeover of businesses

- Businesses should develop a changeover plan for their own organisation which allocates resources to the specific tasks (in terms of time, budget and human resources), which should be revised on a regular basis. This task can be completed in the absence of a target date;

- A person in charge should be designated within each organisation to co-ordinate the tasks, to monitor completion of these tasks, and to keep abreast of changes in the legislative environment. Depending of the size of the company, setting up a smaller project team for this purpose may be justified. For smaller businesses the person responsible for managing the business should be responsible for preparations regarding the introduction of the euro;

- In order to facilitate cost-efficient changeover, businesses should already take into account the introduction of the euro when they make investment decisions. In this way they can avoid having to face massive investment needs at the last moment, which would be both physically and financially challenging (assets, labour costs, etc.);

- Corporations with a large number of SME suppliers may find it useful to organise independent training courses for their partners, as a substantial part of their contracts, their pricing practice and their cash turnover is related to this group. It is a key interest of businesses that their suppliers switch to the new currency without problems;

- For businesses with partners operating in the euro area, getting to know some of their best practices and collecting their experiences might also be useful.

Box 2: General principles of the EU Commission regarding the changeover of businesses

Dual display of prices

- Retailers apply dual display of prices following the announcement of the irrevocably fixed exchange rate. The Commission does not recommend the display of prices in both forint and euro before the irrevocably fixed exchange rate is announced.

- Retailers must separately show any fees which they may charge for payments that are made in euro in the period between the announcement of the irrevocably fixed exchange rate and €-day.

Organisation of training programmes

- Businesses are recommended to provide training to their employees in order to familiarise them with the proper identification of the security features of banknotes, and to facilitate their efficient handling of the new currency.

- Employees of businesses who interact with citizens should receive occasional training on how to improve euro-consciousness.

Adequate provision of information to businesses

- Administrative authorities should provide specific information to businesses, especially those of small- and medium-size, on the timetable of changeover, and the relevant legal, taxation and accounting provisions. Trade organisations, euro-info points, chambers of commerce, accounting professionals and business consultants should make certain that their business partners are making proper preparations for changeover to the euro.

Sub-frontloading in the retail sector

- Sub-frontloading must be complete within weeks before €-day.

- In the case of small retailers special measures should be taken regarding their supply with cash, and to facilitate sub-frontloading, attractive, postponed payment conditions should be offered.

- In addition, efforts must be made to reduce cash handling problems, e.g. retailers should be supplied with the proper devices.

- Retailers must give change in euro only, unless prevented by technical problems.

- Retailers must be supplied with separate devices ensuring a faster cash supply, and the prevention of queuing.

6 Consumer protection

The main objective of consumer protection in relation to changeover is to identify the areas where consumer interests might be endangered due to changeover, and also to set up and implement a strategy to mitigate such risks. Efficient consumer protection enhances the level of public confidence in the new currency. This section identifies the challenges faced by consumer protection in attempting to reach these goals, as well as the tasks these challenges involve and their timing. The majority of the tasks related to consumer protection arise in the final phases of the changeover process, during the one or two years preceding introduction of the euro, and in the phase following €-day. The expected tasks should be mapped and identified in the foundation phase, while tasks arising later should also be scheduled.

6.1 Parties concerned

Participants directly affected by changeover

- Citizens;
- Vulnerable groups.

Organisations supporting changeover

- Hungarian Authority for Consumer Protection and other authorities with competencies in the field of consumer protection;
- Consumer protection non-profit organisations (NGOs);
- Non-financial and financial companies and organisations for the representation of interest;
- Local governments;
- Ministries (MSAI, MJLE, MNDE).

6.2 Tasks

The consumer protection tasks deriving from euro changeover include both the implementation of the specific tasks of consumer protection and preparation of the civil consumer protection organisations to support the completion of these tasks.

6.2.1 Professional tasks related to consumer protection

Distribution of information

Some of the most important tasks associated with consumer protection are the dissemination of information and coaching of the relevant parties to make sure that all parties concerned are well informed. The biggest priority is to provide every citizen with the most important information regarding changeover. Therefore, it is important to take into account the consumer protection aspect during the development and implementation of the general communication strategy. The relevant state and civil organisations are responsible for providing the professional background required for effective consumer protection.

Distribution of information includes the provision of general information to the widest range of the population on the one hand, and the distribution of specific information to certain sections of society on the other. A network of different forums should also be established to provide answers to the questions of citizens, and review and record all anomalies and infringement of rights experienced by the population.

Vulnerable groups

During the communication process, vulnerable groups should be priority, because these individuals are more vulnerable from a consumer protection perspective, and, for the most part, even reaching them with the necessary information may require special tools and methods. These vulnerable groups include the disabled, the elderly, ethnic minorities, immigrants, the homeless, individuals struggling with socio-economic problems, and illiterate persons. Civil organisations supporting these social groups will play a crucial role in an efficient provision of information. Therefore, representatives of these institutions must have access to all information related to the introduction of the euro, as they are responsible for transferring the information directly to the vulnerable groups of society.

The information tasks related to consumer protection are completed in accordance with the elements of the communication campaign supervised by the communication sub-committee of the NEC, under the co-ordination of the communication sub-committee.

Prevention of unfair price increases

In the periods directly preceding and following €-day, one of the most important responsibilities is to avoid that product prices and service fees are increased merely as a result of the currency switch. If the inflation perception of the population indicates a significant difference from the earlier trends, in short, if the appearance of the new currency results in higher prices (or is perceived to result in higher prices), social acceptance of the euro will be lower. In this regard an important task is to identify what is meant by unfair price increases, and what sanctions are to be applied when they occur.

The control of dual pricing by means of consumer protection tools could greatly assist in preventing unfair price increases. In accordance with Section 5.2.2 on 'fair pricing', the implementation of voluntary agreements with the retail and service sectors should be supported by established codes of conduct. Those adhering to the standards laid down by the code will be entitled to use a logo indicating so.

The consumer protection authority checks compliance with legislative and administrative provisions affecting consumers in general, and in regarding the application of the official price for products and services offered in particular, and also checks whether consumers were informed properly. Monitoring the pricing of products and services frequently bought by consumers is particularly important, along with informing the citizens on the findings of such checks.

Consumer protection will particularly focus on the task of monitoring whether the price of products and services retailers and service providers apply has been converted to euro on the basis of the irrevocably fixed exchange rate. A monitoring system is to be developed to monitor the pricing habits of retailers and service providers. In addition to the relevant authorities, civil organisations and citizens will also participate in the execution of this task.

Legislation changes affecting consumer protection

In this area the following tasks will be given special focus: initiating the modification or establishment of those legal provisions concerning consumer protection that are affected by the introduction of the euro; providing opinions with respect to legislative provisions or draft legislative provisions; and establishing a penalty system for unfair price increases and the infringement of other consumer rights.

6.2.2 Preparation of consumer protection organisations

Providing consumers with specific information is a task to be addressed both by the government, and civil organisations, thus both of these sectors will have responsibilities in this regard. Consequently, consumer protection and other social organisations should be prepared for the introduction of the euro via conferences and training sessions. A preparation strategy should be drawn up with the direct purpose of identifying potential solutions.

Box 3: European Commission recommendations

- An agreement should be made with the retail and service sectors to ensure that the introduction of the euro has a neutral price effect. Under this scenario, the use of a logo would be a practical solution, and appropriate counter-incentives should be developed for non-compliance with the standards of the agreement.

- Performance of the obligations of retailers and other businesses under the agreement should be monitored in co-operation with consumer associations. Restraining sanctions should be introduced for non-performance. In the weeks preceding and following €-day it is good practice to provide information on pricing.

- The practice of dual pricing should be stipulated by national legislation. The mandatory practice of dual price display should start as early as practicable following the announcement of the irrevocably fixed price, and should continue to be in use for 6 to 12 months following €-day.

7 Framework of the communication strategy for changeover

Core principles

- Messages should be clear and simple;
- The main messages of the programme and other information regarding the changeover should reach the passive sectors as well;
- The programme focuses on reaching vulnerable citizen groups;
- The programme uses the results of public surveys on a continuous basis, and flexibly adjusts to the findings of those surveys;
- The communication strategy for changeover should be characterised by a balanced combination of rational explanation and emotive effect, where the emphasis is defined by the findings of research.

General communication goals

- Ensure that citizens are well-prepared, establish social and individual confidence for a successful changeover, turn negative expectations to neutral or positive ones;
- Ensure a problem-free changeover, smooth preparation and implementation to be supported by communication;
- Ensure that the euro is accepted as Hungarian legal tender by the broadest range of citizens, and facilitate a smooth withdrawal of the forint;
- Reach the broadest group of citizens with messages in a competent, targeted and cost-efficient manner.

7.1 Parties concerned

7.1.1 Citizens

The information campaign for euro changeover must address the broadest group of citizens. The definition of a target group will be finalised as the findings of the research become known.

- Broadest group of citizens: the main target group of the campaign, all communication activities will focus on this target group;
- Children, elementary school pupils: tailored to the general citizen campaign, customised communication strategy for the target group, which considers and adjusts to age characteristics, and also participates as a target group intermediary (parents, grandparents, etc.);
- High school/university/college students: in addition to tailored communication, this target group may have a strong intermediary role;
- Vulnerable groups of citizens:
  – The elderly and old-age pensioners;
  – Single persons;
  – Mentally or physically disabled citizens;
  – Underprivileged minorities;
  – Citizens with a confined place of residence (care homes, hospitals, prisons, etc.).

7.1.2 Public sector

Government organisations, central professional management bodies, regional administrative organisations, local governments, legislative and jurisdictional organisations, and other state organisations independent of the central government.

7.1.3 Private sector

- Other micro, small and medium businesses;
- Multinational corporations in the fields of industry, trade, tourism, hotel business and transportation;
- Public utility providers, institutions and organisations of the financial sector and telecommunications.

7.2 Situation analysis and status report

In order to develop a communication strategy, a starting point needs to be defined first. The current status was identified on the basis of the Flash Eurobarometer produced by the European Commission (September 2007).

Based on the findings of the report, domestic support for the euro has decreased in recent years. Opinions are rather divided over the expected date of the introduction of the new currency, and the majority appear to think that the single currency should be introduced 'after a while', rather than as soon as possible. The majority of those interviewed have seen euro before, and many of them have used it as well. The survey points out that Hungarians are most interested in the expected exchange rate between the euro and the forint.

The majority of those interviewed believed that they were not well informed regarding the euro. Most concerns about the euro arose in connection with potential price manipulations during a changeover.

7.3 Tasks

Communications play a critical role during changeover, and even though the related activities are to be the most intense during the period directly preceding €-day, certain tasks are to be completed beforehand.

Hungarian authorities are responsible for communications, but this is one of the few areas where the European Union provides direct assistance in supporting changeover. Within the framework of this assistance, informative materials will be available,[13] and by means of co-operation agreements, the European Commission and the ECB will provide communication support (including the arrangement of seminars, conferences, etc.).

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13 http://www.ecb.int/bc/euro/material/html/index.hu.html.

7.3.1 Research strategy

In order to lay down the groundwork for communications, different surveys are needed for different periods of the practical preparations.

	Timing	Topic	Methodology
Citizen surveys I	Before the target day is defined	The expected or 'ideal" date of changeover, knowledge/use of euro, level of awareness, knowledge of euro exchange rate, thoughts on changeover implications, concerns	Omnibus survey,[14] 1,000-1,500 persons, 6-month frequency, permanent questionnaire
Citizen surveys II	€-day – 24 months	Knowledge of €-day, knowledge/use of euro, level of awareness, knowledge of ERM2 central parity, thoughts on changeover implications, concerns, euro payment habits, knowledge of euro changeover method	Omnibus survey, 1,000-1,500 persons, quarterly frequency, permanent questionnaire
Citizen surveys III	€-day – 12 months	Knowledge of €-day, knowledge/use of euro, level of awareness, knowledge of ERM2 central parity, thoughts on changeover implications, concerns, euro payment habits, knowledge of euro changeover method, public awareness regarding communications, intelligibility of communications	Omnibus survey, 1,000-1,500 persons, 2-month frequency, permanent questionnaire
Citizen surveys IV	€-day – 6 months	Knowledge of €-day, knowledge/use of euro, level of awareness, knowledge of ERM2 central parity, thoughts on changeover implications, concerns, euro payment habits, knowledge of euro changeover method, public awareness regarding communications, intelligibility of communications	Omnibus survey, 1,000-1,500 persons, monthly frequency, permanent questionnaire
Citizen surveys V	Ad hoc	Concerns, lack of knowledge, review of the most sceptical target groups	Qualitative research, focus-group interviews, fast phone call tests
B2B surveys	€-day – 12 months	Contracts made in forint and euro, ratio of euro in total orders, deposits and loans in euro, hedging transactions, expected impact of changeover on the business	Phone method, 1,000 businesses, 6-month or quarterly frequency

14 A method of quantitative research where data on a wide variety of subjects is collected during the same interview.

7.3.2 Messages of the euro adoption

In this phase of the work, due to the limited nature of available information, decisions and specifics, actual messages cannot be defined. The objective of the NEC was to outline points of reference for future message definitions.

- Messages are based on the findings of research;

- Messages must be reviewed on a regular basis, and based on the findings of research they must be modified and updated as needed;

- When identifying the messages, conclusions of the relevant professional chapters of the NCP should be considered;

- Messages should address the broadest possible group;

- Messages should be simple, clear and easy to understand;

- Messages should be honest; they should not hide potential problems or aspects of a more complex nature;

- Messages should be factual and they should present promises; at the same time, they should also be emphatic, reflecting socio-economic benefits. For example:

  – **Fact:** Introducing the euro is an obligation of the Hungarian Republic based on its accession to the EU;

  – **Promise:** The euro brings stability and predictability to the Hungarian economy and its citizens; and by introducing the euro Hungary will irrevocably become a part of the developed world;

  – **Emphatic message:** The changeover to the euro results in tangible benefits for every Hungarian citizen.

7.3.3 Tools and channels of communication

General communication tools include media relations, informational materials, calendars, publications, direct communication (such as conferences, lectures, public debates, presentations, etc.), advertising and promotional materials (Hungarian, European Commission and ECB materials), and networks participating in the distribution of information to citizens both in and outside Budapest.

Information tools/channels to be implemented under the supervision/co-ordination of the NEC include:

- Euro information home page;
- Euro-line;
- Conferences, round-table discussions, presentations;
- Posters, flyers, informational materials;
- Promotional materials and advertising programmes;
- Co-ordination of other changeover information campaigns.

7.3.4 Partners and multiplicators

Active multiplicators include: the media, the stock exchange, banks, financial institutions, currency exchange agencies, retail and hospitality businesses, transportation companies, post offices, pharmacies, service stations, travel agencies and tourism organisations, consumer interest organisations (particularly chambers and economic associations), organisations for the representation of business interest and civil organisations (particularly those focusing on retired citizens).

Local governments, local government associations, teachers and institutions of education, health workers, cultural institutions and religious organisations constitute passive multiplicators.

7.4 Tasks for the coming period

In the period between 2008 and the setting of the target day, research can be and should be planned and implemented as the needs of special target groups and related issues are identified, and continuous, attitude forming and maintaining communications are commenced.

The NEC updates the action plan on a continuous basis, and when the target date is known it will draw up a detailed timetable for changeover; it also develops a communication strategy tailored to the requirements of potential crisis situations identified by the sub-committees.

By 30 November 2008, the Communications Sub-committee presents a proposal to the NEC on a long-term strategy for the changeover communication campaign, and on the creative elements of the preparation phase and the introduction phase (logo, image, slogan). Based on the proposal the NEC makes a decision regarding the strategy and the creative elements by 31 March 2009.

7.5 Recommendations of the NEC

- Comprehensive and general information provision is needed and required, compliance with EC recommendations;
- National interest, consensus, political neutrality in communications;
- The NEC recommends that the Ministry of Education and Culture examine the possible method and timing of the replacement of the term forint by euro in elementary school and secondary school exercise books.

Annexes

Annex 1: Changeover schedule

General (umbrella) legislative tasks

	Description of task	Time required for the execution of the task – Start (Date)	Time required for the execution of the task – End (Date)	Details	Responsibility
1	Feasibility study of legal system	2008 Q3	31 December 2008	Study the feasibility of modifying the legal system by means of a differentiated, automated conversion mechanism for the purpose of eliminating all legislative forint references	Ministries, under the co-ordination of MJLE
2	Develop the Umbrella Law specifying the general rules for euro adoption	€-day – 36 months (beginning of professional consultations)	€-day – 12 months (partially in force) €-day (fully in force)		All ministries

Conversion of information technology systems

	Description of task	Time required for the execution of the task		Details	Responsibility
		Start	End		
		Date			
1	Reviewing IT systems affected by the changeover	Q3 2008	2009	All organisations are to review their IT systems which will be affected by the new currency. Produce a list of those, to be included in the partial changeover plan of the specific organisation.	All organisations using IT systems
2	Defining euro-compatibility criteria	Q3–Q4 2008	31 December 2009	Budget plan, after acceptance of a budget, design public procurement tender process. Public procurement process, develop proposal, accept NEC recommendation.	In charge – IT Sub-committee Approval – NEC
3	Monitoring the conversion of IT systems of the public sector	Q3 2008	€-day	Develop internal procedure system	IT Sub-committee
4	Preparing requirements of financial systems	Q3–Q4 2008	€-day – 24 months	Develop internal procedure system	In charge – IT Sub-committee Approval – NEC
5	Specifying best practices	Q3 2008	€-day + 6 months	Develop internal procedure system	IT Sub-committee

Annexes

Responsibilities of the public sector during changeover

	Description of task	Time required for the execution of the task: Start (Date)	End (Date)	Details	Responsibility
1	Tasks related to the conversion of the taxation system (contributions, fees, charges)	€-day – 12 months	€-day – 45 days at the latest	Modify legislation related to certain taxes and levies (taxes, duties, contributions, charges)	MF and other ministries (fees), local governments (local taxes)
		€-day – 12 months	€-day	Conversion of the record systems of taxes and levies	Tax Authority, Hungarian Customs and Finance Guard (HCFG), for local taxes the Hungarian Treasury (HT) and local governments
		€-day – 24 months	€-day	Manufacture new fee stamps, tax and levy certificates, and for excise tax, tax and customs stamps	MF-Tax Authority, HCFG
2	Tasks to be completed in the area of the national pension system	€-day – 16 months	€-day – 3-4 months	Conversion of pensions and pension-like benefits determined before the changeover, and conversion of systems supporting disbursements	CANPI
		€-day – 12-24 months	€-day – 3-4 months	Conversion of systems used for the calculation of new, post-euro benefits (to support the dual currency management of pension funds)	CANPI
		€-day – 12 months	€-day – 3-4 months	Conversion of systems supporting the calculation and disbursement of benefits disbursed by virtue of separate legislation and not financed by the Pension Fund	CANPI, in co-operation with the 'owner' of the disbursed benefits

Responsibilities of the public sector during changeover (cont'd)

	Description of task	Time required for the execution of the task – Start (Date)	End (Date)	Details	Responsibility
3	Tasks related to the conversion of other welfare and social benefits funded by the government	€-day – 12 months	€-day – 2 months	Change and amend legislation related to certain social allowances	Ministry in charge of the legislation (MSAI)
		€-day – 12 months	€-day – 3-4 months	Conversion of the IT systems of organisations disbursing social allowances (beyond the system of the Central Administration of National Pension Insurance), e.g. Public Employment Service	Affected institutions, under the supervision of MSAI
		€-day – 24 months	€-day – 3-4 months	Provide information to the institutions responsible for social allowances to assist them in their preparation	MSAI and ministries of the specific professional areas
4	Issues concerning the conversion of home	€-day – 24 months	€-day	Review the system of home construction subsidies from the perspective of euro adoption	Local governments, MF, Hungarian Treasury
5	Issues related to the conversions of employer remunerations in the public sector	€-day – 12 months	€-day – 6 months	Specify rounding rules for remuneration systems and payrolls	MF, MSAI
		€-day – 6 months	€-day – 2 months	Convert payment items of payroll systems (amend the Act of Legal Status)	MSAI, with the co-operation of the ministries responsible for legal status regulations
		€-day – 6 months	€-day – 45 days	Convert payment items of lower level provisions and collective contracts	Industry ministries, budgetary organisations
		€-day – 12 months	max. €-day + 12 months	Convert payroll systems, dual price display	Hungarian Treasury

Responsibilities of the public sector during changeover (cont'd)

	Description of task	Time required for the execution of the task – Start (Date)	End (Date)	Details	Responsibility
6	Tasks related to the conversion of the accounting system	€-day – 12 months	€-day	Modify accounting provisions	MF
		€-day – 6 months	€-day	Convert accounting software of certain institutions	Budgetary organisations
7	Conversion of statistical systems	€-day – 12 months	€-day	Convert statistical data collection	CSO and other statistical data collectors
		€-day – 24 months	€-day	Convert statistical time series	CSO and other statistical data collectors
		€-day – 12 months	€-day	Convert (traditional and electronic) statistical publications	CSO and other statistical data collectors
8	Conversion of the budgetary and reporting system of the central government	€-day – 12 months	€-day – 6 months	Conversion of the budgetary and reporting system of the central government	MF
9	Conversion of government debt	€-day – 36 months	€-day – 12 months	Make decision on redenomination and renomination	MF, Government Debt Management Agency
10	Special tasks involved in the preparation of local governments	€-day – 24 months	€-day	Provide information to local governments to assist in their preparation	All relevant ministries of the specific professional areas
		€-day – 12 months	€-day	Review and modify the decrees of local governments	Local governments
		€-day – 12 months	€-day	Conversion of IT-record systems	Hungarian Treasury, local governments

Conversion of the financial sector

	Description of task	Deadline for preparation	Deadline for execution	Responsibility
	I. Cash replacement			
1	Review the feasibility of measures facilitating the increased supply of small denomination banknotes (for the cash supply of ATMs and the tills of credit institutions and retail post office tellers)	Continuous	Continuous	MNB, credit institutions, Post Office, cash processing organisations
2	Review the feasibility of measures facilitating the conversion of household forint cash to units of account and the increased use of cash reducing alternatives, steps, methods, and/or recommendations to facilitate the reduction of national cash demand	Continuous	Continuous	MNB, HFSA, credit institutions Post Office
3	Integrate cash-related Community rules (e.g. a system of conditions for the withdrawal of banknotes) in the domestic model through the update of domestic provisions	Continuous	Continuous	MNB, credit institutions, Post Office, cash processing organisations, retailers
4	Prepare for the potential parallel use of the current, and planned new euro banknote series, and for the exchange of banknotes, which will be possibly withdrawn by that time	Continuous	€-day	MNB, credit institutions, Post Office, cash processing organisations, retailers
5	Decision on domestic or foreign production of the euro	2008 end of year		MNB
6	Define the design and consultation principles and the actual work related to the production of euro coins with a Hungarian side	First half of 2009		MNB
7	Define and provide for the excess storage, processing and transportation requirements due to the parallel management of forint and euro cash (by economic unit)	€-day – 36 months €-day – 12 months	€-day – 4 months	MNB, credit institutions, Post Office, cash processing organisations, retailers
8	Establish the domestic conditions for the so-called frontloading and sub-frontloading process in line with the Guideline of the European Central Bank ECB/2006/9 and its planned revision, and Commission Recommendation 2008/78/EC	€-day – 36 months €-day – 12 months	€-day – 6 months	MNB, credit institutions, Post Office

Conversion of the financial sector (cont'd)

	Description of task	Deadline for preparation	Deadline for execution	Responsibility
9	Determine the optimal length of the dual circulation period (from the perspective of retailers, consumers, credit institutions and cash processing organisations)	€-day – 24 months	€-day – 12 months	MNB, credit institutions, Post Office, cash processing organisations, retailers, consumer protection organisations
10	Identify the issues related to the free central bank or non-central bank exchange of withdrawn forint cash (organisations obliged to perform the exchange, timeframe of the exchange, possible maximum limit for a free exchange)	€-day – 24 months	€-day – 12 months	MNB, HFSA, credit institutions, Post Office
11	Define and order euro cash supply required for the currency replacement (by economic unit, by denomination)	€-day – 24 months (MNB) €-day – 12 months (credit institutions) €-day – 6 months (retailers)	€-day – 6 months (MNB) €-day – 6 months (credit institutions) €-day – 3 months (retailers)	MNB, credit institutions, Post Office retailers
12	Define rounding rules (depending on the role of 1 and 2 euro cent coins in Hungary)	€-day – 24 months	€-day	MNB, MF, HFSA, Post Office, credit institutions
13	Manage cash payment methods (cash payment to the recipient's bank account, transfer from bank account to recipient's account, domestic postal vouchers)	€-day – 24 months	€-day	Post Office, credit institutions, utility service providers
14	Issues regarding the conversion of ATMs to euro (method, timetable, denominations to load, technical conditions)	€-day – 24 months	€-day – 1 months	MNB, credit institutions, cash processing organisations

Conversion of the financial sector (cont'd)

	Description of task	Deadline for preparation	Deadline for execution	Responsibility
15	Issues regarding the conversion of vending machines and ticket vending machines (method, timetable, technical conditions)	€-day – 24 months	€-day	MNB, Hungarian Association of Food and Beverage Vending Machines, retailers, relevant service providers
16	Special issues regarding the withdrawal of commemorative coins and notes	€-day – 12 months	€-day – end of dual circulation period	MNB
17	Distribution of information on euro cash to tellers and citizens, their familiarisation with higher banknote and coin values (define scope of information and channels, organise training)	€-day – 12 months	€-day – 0-5 month	MNB, credit institutions, Post Office, retailers
18	Method of supplying citizens (and collectors) with euro coins with a Hungarian side	€-day – 12 months	€-day – 1 month	MNB, credit institutions, Post Office, retailers
19	Special measures to reduce queuing due to the currency replacement (e.g. feasibility of extended hours, extra staff, extra shifts, starter kits for SMEs and other businesses, etc.)	€-day – 12 months	€-day – 1 month	MNB, credit institutions, Post Office, retailers
20	Develop and execute, as required, a crisis plan to manage emergencies arising from adverse weather conditions or increased criminal risks	€-day – 6 months	As required	MNB, HFSA, credit institutions, Post Office, retailers
21	Establish a professional foundation for communications related to the cash changeover and customer information, modify voucher forms as required, convert IT systems	€-day – 6 months (MNB & credit institutions) €-day – 3 months (retailers)	€-day – 6 months (MNB & credit institutions) €-day – 3 months (retailers)	MNB, HFSA, credit institutions, Post Office, cash processing organisations, retailers
22	By securing the required technical conditions, execute logistical cash changeover (arrange euro cash supply, develop central bank and non-central bank depository, processing and teller capacity, provide cash for teller transactions, withdraw forint cash, destroy or recycle exchanged forint cash)	Beginning of ERM2 membership – €-day – 6 months	From €-day – 6 month – end of dual circulation period	MNB, credit institutions, Post Office, cash processing organisations, retailers

Conversion of the financial sector (cont'd)

	Description of task	Deadline for preparation	Deadline for execution	Responsibility
	II. Securities market			
Trade and stock exchange				
1	Define when to phase out forint-based FX contracts, and open new maturities. How to handle maturities opened before €-day and expiring after €-day? Decision level: in-house, HFSA recommendation	€-day – 24 months	€-day – 12 months, then continuously	BSE, KELER, HFSA
2	Define whether it can be stipulated on the spot market that it will be closed for business during the accounting period (3 days) while the systems are converted. Decision level: in-house, consulting with MNB	€-day – 12 months	€-day	BSE, KELER, MNB
3	Open positions will have to be managed both on the spot market and the derivatives market. Positions will be settled according to the new settlement prices. Decision level: in-house	€-day – 12 months	€-day	BSE, KELER
4	Define provisions for the handling of physically settled derivative positions. Decision level: in-house	€-day – 12 months	€-day – 6 months	BSE, KELER
5	Revise index-calculation, change the base price of assets implied in the indices, modify the 'K' factor ensuring the continuity of index values. Decision level: in-house	€-day – 12 months	€-day	BSE
6	Rounding for stock exchange transactions: rounding should pose problems for the division of prices especially as it relates to managing open positions, as rounding up or rounding down will inevitably affect investors in the open and short positions asymmetrically. Decision should be made on the required adjustment. Decision level: in-house, in consideration of recommendations and consumer protection provisions.	€-day – 12 months	€-day	BSE, KELER

Conversion of the financial sector (cont'd)

	Description of task	Deadline for preparation	Deadline for execution	Responsibility
7	Define for bonds whether trading on BSE should continue to be based on a net or gross exchange rate. Decision level: in-house, HFSA recommendation	€-day – 12 months	€-day	BSE, KELER, HFSA
8	Change in the settlement currency: although currently traded cross-currency contracts are not affected by the change in denomination, their settlement is. At this time these contracts are settled in forint, which will have to be replaced by the euro after €-day. Decision level: in-house	€-day – 12 months	€-day	BSE, KELER
9	Phasing out FX products against the forint should be complete by the denomination change at the latest. Presumably, this step can be taken as soon as the forint-euro exchange rate is fixed. Decision level: in-house	€-day – 12 months	€-day – 6 months, then continuously	BSE, KELER
10	Change spot market base prices (base price defines the possible range of price changes for the day). Decision level: in-house	€-day – 6 months	€-day	BSE, KELER
11	Decide who should be responsible for changing the end-of-day settlement prices and contract prices for the derivatives market, and when this price change should take place. Decision level: in-house	€-day – 6 months	€-day	BSE, KELER
12	For BSE the smallest price adjustment is to be modified to 1 euro cent. Decision level: in-house	€-day – 6 months	€-day	BSE, KELER
13	A problem to solve is that due to the change in denomination, historic data will not be comparable with the post-changeover time series. Historic data must be converted at the irrevocably fixed exchange rate. The compatibility of stored data must be ensured. Decision level: HFSA to issue a recommendation	€-day – 6 months	€-day	BSE, KELER, HFSA, investment service providers

Conversion of the financial sector (cont'd)

	Description of task	Deadline for preparation	Deadline for execution	Responsibility
Renomination				
1	The question arises whether the concept of non-par value shares will appear in Hungary. It would definitely require a change in legislation. Should the issuer be entitled to transform securities into non-par value shares? Decision level: Legislation change (currently Article 177 of Act IV of 2006 on Corporations)	€-day – 36 months	€-day – 12 months	MF, HFSA, KELER
2	Decide whether renomination is in fact needed. (In certain EU countries securities were not renominated). Decision level: legislation	€-day – 36 months	€-day – 12 months	MF, HFSA, KELER
3	Decision must be made as to whether to allow the existence of fractional denominations. Fractional denominations can be traded abroad. Decision level: legislation, capital market consultation	€-day – 36 months	€-day – 12 months	MF, HFSA, KELER, investment service providers
4	A legislation should be drafted to specify how to handle the fractional numbers of pieces resulting from the renomination process. Decision level: legislation, capital market consultation	€-day – 12 months	€-day	MF, HFSA, KELER, investment service providers
Redenomination				
1	Legislation should be drafted regarding dematerialised securities to specify whether the currency of the security should be displayed on the dematerialised documents, and whether the issuer should replace the document issued on the security for all dematerialised securities. This might be a good occasion to review the issuance of dematerialised securities. Decision level: legislation (Article 7 of Act CXX of 2001 on the Capital Market) In KELER currency must be displayed, while the law does not stipulate this.	€-day – 36 months	€-day – 12 months	MF, HFSA, KELER

Conversion of the financial sector (cont'd)

	Description of task	Deadline for preparation	Deadline for execution	Responsibility
2	For shares the change of currency has to be approved by the general meeting, it has to be published in the deed of foundation of the company, then filed at the Registry Court as company data. Could this step be eliminated if there was a law stipulating it? Would redenomination take this decision out of the hands of the shareholders? Decision level: we recommend that a provision is drafted to stipulate the redenomination, however, it should grant a 2-year grace period for its implementation, and it should order the general meeting to take responsibility for the redenomination process.	€-day – 36 months	€-day – 12 months	MF, KELER
3	A provision is required to decide whether fixed and variable rate bonds should be converted in the same manner. If variable rate bonds were fixed to a forint tier, a decision must be made on how interest rate calculation would change. The future of forint-specific domestic indices should be decided through a joint consultation between the owners of the indices (MNB, ÁKK – the Government Debt Management Agency, and BSE) and the major market participants. The best solution should probably be benchmarked. Domestic indices do not have to disappear necessarily, however, their elimination should be considered. Decision level: consultation is needed with the capital market and bond issuers. Prospectuses will likely to have to be changed.	€-day – 24 months	€-day – 12 months	MF, MNB, BSE, KELER, HFSA, Government Debt Management Agency, investment service providers
4	A provision should be drafted to specify what should happen to instruments which have not been redenominated by the deadline (sanctions or automatic redenomination). If it is automatic redenomination, who should be responsible for its implementation? It could be implemented centrally, by a person authorised by law, or account managers, or custodians. Who performs the redenomination? The issuer or maybe a designated central location (e.g. KELER)? If the redenomination is carried out centrally, then this central location should calculate the principal payable by the issuer for future maturities. The calculated values must be approved by the issuer, and a decision must be made as to how to handle non-approval. Decision level: sanctions, if any, should be stipulated by law, regulation or KELER announcement, and the same applies to the method and responsibility of automatic redenomination.	€-day – 12 months	After €-day continuously	MF, KELER, investment service providers

Conversion of the financial sector (cont'd)

	Description of task	Deadline for preparation	Deadline for execution	Responsibility
	Printed securities			
1	A provision should be drafted to specify what should happen to printed securities, and how they should be redenominated. An option is to make their conversion to non-par value or euro shares mandatory, e.g. to be executed within two years. Decision level: legislation, KELER requirement	€-day – 36 months	€-day – 12 months	MF, HFSA, KELER, investment service providers
	Vouchers, reports, statements			
1	Define which statements will be subject to mandatory dual price/rate display, and which recommendations will be in effect until what date. (Retail – wholesale distinction is allowed with respect to MiFID). Decision level: legislation, HFSA recommendation	€-day – 24 months	€-day – 6 months	MF, HFSA, MNB, investment service providers
2	Define which institutions will be subject to mandatory dual price display. Decision level: legislation, HFSA recommendation	€-day – 24 months	€-day – 6 months	MF, HFSA, MNB, investment service providers
3	Define whether customers should be informed in a separate report that their accounts were converted? (E.g. the report would show the former forint balance of the account, and its current euro equivalent). (Retail – wholesale distinction is allowed with respect to MiFID). Decision level: recommendation – our recommendation is yes	€-day – 24 months	€-day – 6 months	MF, HFSA, MNB, investment service providers

Euro changeover of corporations

	Description of task	Time required for the execution of the task		Details	Responsibility
		Start	End		
		Date			
1	Prepare businesses and support their preparations for the changeover – improve commercial and business culture	Q2 2008	€-day	Define core principles for the preparation of businesses, and identify the most important tasks. With respect to the preparation of businesses, identify the responsibilities of the state, chambers, professional organisations, organisations for the protection of employees, publish studies and recommendations.	NEC, chambers, professional organisations, organisations for the protection of employees, regional development agencies – small-region consultants and businesses
2	Identify IT development requirements in relation to the changeover	Q2 2008	2009	In relation to changeover, lack of required IT conditions and potential problems should be identified for all businesses.	NEC, professional organisations, organisations for the protection of employees, businesses
3	Prepare cash vending machines, tellers, taxameters	Min. €-day – 24 months	€-day	Review, prepare or discard machines.	businesses, MNB, Hungarian Association of Food and Beverage Vending Machines
4	Develop a code of conduct	Min. €-day – 24 months	Min. €-day – 6 months	The objective is to establish a mutual trust between businesses and consumers, issues such as the system of fair pricing, the definition of rounding rules and ethical business conduct are particularly important to clarify.	NEC, chambers, professional organisations, organisations for the protection of employees, consumer protection authorities, businesses

Euro changeover of corporations (cont'd)

	Description of task	Time required for the execution of the task – Start (Date)	Time required for the execution of the task – End (Date)	Details	Responsibility
5	Develop recommendation regarding dual price display	Min. €-day – 24 months	Min. €-day – 18 months	Produce standard forms, templates and guidelines.	chambers, professional organisations and organisations for the protection of employees (National Association of Entrepreneurs and Employers, Hungarian Trade Association, National Association for the Protection of Businesses and Hospitality Businesses)
6	Convert cash substitute vouchers	Min. €-day – 6 months	€-day	Organise and execute tasks related to printing technology issues.	Businesses, professional organisations, organisations for the protection of employees
7	Dual price display	Min. €-day – 5 months	Min. €-day + 6 months	In accordance with national regulations, consumers must be kept informed on the changes, and prices must be displayed in forint and in euro after the announcement of the irrevocably fixed exchange rate.	NEC, companies
8	Final preparations for the cash changeover	€-day – several weeks	€-day at the latest	Sub-frontloading to businesses.	MNB, Hungarian Banking Association, credit institutions, businesses
9	Dual cash circulation, withdrawal of legal tender	€-day	€-day + several weeks	In accordance with national regulations, for a transitional period that lasts until the withdrawal of legal tender, both currencies remain in circulation.	MNB, Hungarian Banking Association, credit institutions, businesses

Consumer protection

	Description of task	Time required for the execution of the task		Details
		Start	End	
		Date		
1	Review of legislative provisions	Q2 2008	€-day	In relation to the introduction of the euro review consumer protection provisions, initiate their amendment, and provide professional opinion on provisions.
2	Avoid price increases	Min. €-day – 24 months	€-day – 12 months	Propose a draft definition of unfair price increases; and make proposal on sanctions to be used if the core principle is violated.
3	Participate in dual price display	€-day – 24 months	€-day – 12 months	Participate in determining the rules for dual price display, control the execution of dual price display.
4	Facilitate 'fair pricing' agreements	€-day – 24 months	€-day + 6 months	Facilitate the conclusion of voluntary fair pricing agreements for retailers/producers in which they undertake to observe pricing discipline.
5	Price monitoring	€-day – 6 months	€-day + 12 months	Monitor the pricing habits of retailers and service providers from a consumer protection perspective. Monitor regulatory rounding, payments, tax limits and other limits from a consumer protection perspective.
6	Support communications targeting the vulnerable groups of society requiring special attention	€-day – 12 months	€-day + 12 months	Professional support must be provided to assist communications targeting the vulnerable groups of society which deserve special attention (the poor, the elderly, children, the disabled).
7	Assist in the preparation of consumer protection civil organisations	€-day – 18 months		Strengthen consumer protection civil organisations, and provide them with information.

Annex 2: Organisational structure of changeover preparations

Working organisation of the National Euro Co-ordination Committee and its sub-committees

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Pénzügyminisztérium – Ministry of Finance
Magyar Nemzeti Bank, the central bank of Hungary
Igazságügyi és Rendészeti Minisztérium – Ministry of Justice and Law Enforcement
Külügyminisztérium – Ministry of Foreign Affairs
Miniszterelnöki Hivatal – Prime Minister's Office
Nemzeti Fejlesztési és Gazdasági Minisztérium – Ministry for National Development and Economy
Oktatási és Kulturális Minisztérium – Ministry of Education and Culture
Önkormányzati Minisztérium – Ministry of Local Governments
Szociális és Munkaügyi Minisztérium – Ministry of Social Affairs and Labour

Adó- és Pénzügyi Ellenőrzési Hivatal – the Hungarian Tax and Financial Control Administration
Államadósság Kezelő Központ – Government Debt Management Agency
Budapest Stock Exchange
Gazdasági Versenyhivatal – Hungarian Competition Authority
Központi Statisztikai Hivatal – Central Statistical Office
Magyar Államkincstár – the Hungarian Treasury
Magyar Nemzeti Vagyonkezelő – National State Holding Company
Magyar Posta – the Hungarian Post
Nemzeti Fogyasztóvédelmi Hatóság – Hungarian Authority for Consumer Protection
Országos Nyugdíjbiztosítási Főigazgatóság – Central Administration of National Pension Insurance
Országos Rádió és Televízió Testület – National Radio and Television Commission
Pénzügyi Szervezetek Állami Felügyelete – Hungarian Financial Supervisory Authority
Vám- és Pénzügyőrség Országos Parancsnoksága – Hungarian Customs and Finance Guard

Általános Fogyasztási Szövetkezetek és Kereskedelmi Társaságok Szövetsége – Hungarian Association of General Consumer Cooperatives and Trading Companies
BAMOSZ – Association of Hungarian Investment Fund and Asset Management Companies
Betegjogi, Ellátottjogi és Gyermekjogi Közalapítvány – Public Foundation for the Rights of Patients', the Insured and Children
Fogyasztóvédelmi Egyesületek Országos Szövetsége – National Federation of Associations for Consumer Protection
Fogyasztóvédők Magyarországi Egyesülete – Hungarian Association for Consumer Protection
GfK Hungária Piackutató Intézet – GfK Hungária Market Research Institute
INDRA Biztosítottak és Pénzintézeti Ügyfelek Országos Érdekvédő Egyesülete – INDRA National Association for the Protection of the Interests of the Insured, and Financial Institution Customers
Informatikai Vállalkozások Szövetsége – Hungarian Association of IT companies
Ipartestületek Országos Szövetsége – Hungarian Association of Craftsmen's Corporations
Joint Venture Szövetség – Joint Venture Association
Kereskedők és Vendéglátók Országos Érdekképviseleti Szövetsége – National Association for the Protection of Businesses and Hospitality Businesses
Magyar Bankszövetség – Hungarian Banking Association
Magyar Biztosítók Szövetsége – Association of Hungarian Insurance Companies
Magyar Iparszövetség – Hungarian Industrial Association
Magyar Kereskedelmi és Iparkamara – Hungarian Chamber of Commerce and Industry
Magyar Kommunikációs Ügynökségek Szövetsége – Association of Communications Agencies in Hungary
Magyar Nyugdíjasok Egyesületeinek Országos Szövetsége – National Federation of Hungarian Pensioners' Associations
Magyar Public Relations Szövetség – Hungarian Public Relations Association
Magyarországi Biztosítottak és Fogyasztók Egyesülete – Association of Hungarian Insureds and Consumers
Magyarországi Vezető Informatikusok Szövetsége – Hungarian Association of Leading IT Professionals

Munkaadók és Gyáriparosok Országos Szövetsége – Confederation of Hungarian Employers and Industrialists
Nyugdíjasok Országos Képviselete – National Pensioners Agency
Országos Fogyasztóvédelmi Egyesület – National Association for Consumer Protection in Hungary
Országos Kereskedelmi Szövetség – Hungarian Trade Association
Hungarian local government associations
Székesfehérvári Fogyasztóvédelmi Egyesület – Székesfehérvár Association for Consumer Protection
Társadalmi Unió – Social Union
Tudatos Vásárlók Egyesülete – Association of Conscious Consumers
Vállalkozók és Munkáltatók Országos Szövetsége – National Association of Entrepreneurs and Employers
Vállalkozók Országos Szövetsége – National Association of Entrepreneurs

List of abbreviations

BSE	Budapest Stock Exchange
ICS	Interbank Clearing System
€-day	Date of euro adoption
ECOFIN	Council of Economic and Finance Ministers (in the European Union)
ECB	European Central Bank
ERM2	European Exchange Rate Mechanism 2
EU	European Union
ESCB	European System of Central Banks
KELER	Central Clearing House and Depository
MNB	Magyar Nemzeti Bank, the central bank of Hungary
NCP	National Changeover Plan
NEC	National Euro Co-ordination Committee
SEPA	Single Euro Payments Area
TARGET2	Trans-European Automated Real-time Gross Settlement Express Transfer System 2
VIBER	Real Time Gross Settlement System

Glossary

Convergence criteria: Certain conditions presented by Article 121 of the EC Treaty (and specified in detail by the Protocol annexed to the Treaty), which have to be met to adopt the euro, including price stability, balanced public finances, stable exchange rate and low interest rates.

Convergence programme: Council Regulation (EC) No 1466/1997 requires that Member States with a derogation produce and submit to the Council and the European Commission a medium-term economic programme, which is updated on a yearly basis.

Convergence report: According to Articles 121 and 122 of the EC Treaty, the European Commission and the European Central Bank produce a report at least once every two years or at the request of any Member State, on the progress made by the Member States in their fulfilment of the convergence criteria. Based on the Report and the recommendation of the Commission, the Council decides on the abrogation of the derogation, i.e. the ability to adopt the euro.

Derogation: a Member State is temporarily relieved from the performance of a community obligation. With respect to the euro this means that a Member State does not have to, and cannot, introduce the euro until it meets the required conditions.

Differentiated automated (conversion) mechanism: guiding principles for the potential application of rounding during conversions. By using these principles the separate conversion of the value of each and every amount to euro regardless of any interrelation between them can be avoided, while it still provides a measure of freedom to consider individual aspects.

Dual circulation period: The period starting from €-day during which both forint and euro coins and notes circulate alongside one another as legal tenders. The maximum length of this period is 6 months, which is usually considerably reduced by national legislation.

Dual display of prices: The display of prices (on price tags, account statements etc.) in both forint and euro.

€-day: The date of euro adoption in Hungary; the point at which euro cash becomes legal tender in Hungary.

EC Treaty: the Treaty establishing the European Community, the constitutional document of the European Union. The Treaty was signed in Rome on 25 March 1957, and came into force on 1 January, 1958. The latest amendment to the EC Treaty was effected by the Treaty of Lisbon, signed on 13 December 2007.

Economic and Monetary Union (EMU): The result of the still ongoing efforts to harmonise the economic and monetary policy of EU Member States (including the adoption of the euro). While Denmark and the United Kingdom have an opt-out right, all other EU Member States have joined the EMU, although some countries within the EMU (including Hungary) have a derogation with respect to the adoption of the euro.

ERM2 (European Exchange Rate Mechanism 2): a common European exchange rate system introduced on 1 January 1999; one of the criteria for euro zone entry is that applicants must be members of ERM2 for two consecutive years without severe tensions. In line with the European procedures regarding the abrogation of the derogation, an applicant country should have joined ERM2 nearly 3 years in advance of €-day. In principle, national currencies in ERM2 are allowed to float within a fluctuation band of ± 15 percent, however, the criterion for the entry is that national currencies should not show severe tensions in the reference period.

Euro area, euro zone: A monetary union comprising those EU Member States, which have introduced the euro according to the provisions of the EC Treaty, and whose common monetary policy is being performed by the Governing Council of the ECB. At present, its members include Austria, Belgium, Cyprus, Finland, France, Greece, the Netherlands, Ireland, Luxembourg, Malta, Germany, Italy, Spain, Portugal and Slovenia.

Eurosystem: The central banking system of the euro area, which consists of the European Central Bank and the central banks of the Member States which have adopted the euro.

First-round Member States: The first 12 Member States introducing the euro: Austria, Belgium, Finland, France, Greece, the Netherlands, Ireland, Luxembourg, Germany, Italy, Spain and Portugal.

Frontloading: the supply of euro notes and coins by the Eurosystem to credit institutions in advance of €-day. See also: Sub-frontloading.

Harmonisation of law: Domestic legislation, the objective of which is to ensure that a member country performs its obligations under Community law, and to establish a legal environment which allows the country to exercise the rights it is entitled to as member country.

Irrevocably fixed exchange rate: A fixed exchange rate set by the Council of the European Union following its decision on the introduction of the euro in Hungary, at which the forint will be converted to euro on 1 January of the following year.

National Euro Co-ordination Committee (NEC): The central organisation responsible for co-ordinating the work related to the adoption of the euro in Hungary, established by Government Resolution 1071/2007 (IX. 21.).

Perceived inflation: The growth rate of prices as perceived by consumers, estimated on the basis of surveys.

Redenomination: Conversion of the nominal value of securities from forint to euro.

Renomination: Changing the denomination of securities for the purpose of, among other things, avoiding fractional denominations (round nominal forint values would become fractional values when converted to euro).

Single-step introduction (Big Bang): adoption of euro as a unit account and legal currency on the same day, without a transitional period.

Statute of the European Central Bank: A document annexed to the EC Treaty, which lays down the status of the ECB, and sets out general provisions regulating its operations.

Sub-frontloading: The supply of euro notes and coins to economic participants other than banks (primarily retail businesses) in advance of €-day.

TARGET2 (Trans-European Automated Real-time Gross settlement Express Transfer system 2): The real-time, gross settlement system of the euro zone launched in 2007/2008 to replace TARGET. **New Member States:** The states joining the European Union in 2004 and 2007: Cyprus, the Czech Republic, Estonia, Poland, Latvia, Lithuania, Hungary, Malta, Slovakia, Slovenia, and Bulgaria and Romania.

Transitional period: the period from the first use of the euro as a unit of account until the introduction of euro cash. For the first 11 euro area Member States this period lasted for 3 years; from 1 January 1999 until 31 December 2001, while the same period in Greece lasted 1 year; from 1 January 2001 until 31 December 2001.

Umbrella law: A possible form of legislation modifications broadly used in relation to the introduction of the euro, which enacts the required legislation changes within the framework of a comprehensive law. It may be supplemented by individual amendments which are specific to certain areas.

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