

# National Plan for Euro Introduction in the Czech Republic

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## Introduction

Together with its accession to the European Union, the Czech Republic assumed the **obligation to adopt the common European currency – the euro**. We are already participating in the **third phase of the Economic and Monetary Union (EMU)**, but, as a country, we have a temporary exemption, or derogation, for changing over to the euro. Our responsibility is to strive to implement the euro in the shortest timeframe possible, whereby this implementation is conditional on meeting the nominal requirements set forth by the convergence criteria (also known as the “Maastricht Criteria”) and putting through certain legislative amendments.

In addition to fulfilling these criteria required by the European Union, it is just as important to ensure the smooth replacement of the crown with the euro in the technical, institutional, and legislative areas. The plan for completing individual steps in these areas is defined in the **National Plan for Euro Introduction** in the Czech Republic, which was approved by the government and introduced to the public in mid-April.

The National Plan for Euro Introduction in the Czech Republic is definitely not a static document. It is quite the opposite in fact, as the document **will be updated regularly**, on an annual basis. If there are any fundamental changes to the Czech Republic’s entry into the Eurozone, special updates will be made.

### ***Structure of the National Plan for Euro Introduction***

The National Plan for Euro Introduction is a comprehensive document consisting of a total of 109 pages and is divided into three sections:

**Section I: “Basic Information”;**

**Section II: “Specification of Tasks in Individual Sectors”;** and

**Section III: “Glossary of Basic Terms”.**

The complete document is available for downloading at the following address:

[http://www.mfcr.cz/cps/rde/xchg/mfcr/hs.xsl/eu\\_plan\\_zavedeni\\_eura\\_31844.html](http://www.mfcr.cz/cps/rde/xchg/mfcr/hs.xsl/eu_plan_zavedeni_eura_31844.html)

## Basic Principles for Introducing the Euro in the Czech Republic

### **Single-Step Changeover to the Euro – the “Big Bang” Approach**

Last autumn, it was decided that the euro would be introduced in the Czech Republic at one time, both for non-cash transactions as well as in the form of banknotes and coins – this is also called **the “Big Bang” scenario**. The alternative scenario, which includes a transitional period of several years between the introduction of the euro in non-cash and cash environments, such as the one that was used in existing Eurozone countries (with the exception of Slovenia), was rejected.

### **Dual Circulation**

After the date on which the euro is implemented, there will be a short, two-week period of time during which **both the Czech crown and the euro will be in parallel circulation**. The legal tender to be used for payment as of the changeover date will be the euro. Customers will be able to pay with Czech banknotes and coins, but businesses will be required to return change only in euros. This will result in the Czech crown gradually being removed from circulation.

### **Continuity of Legal Instruments**

The implementation of the euro in the Czech Republic will not impact the validity of contracts and other legal instruments of a similar nature. **All contracts that contain data stated in Czech crowns will continue to be valid** without changes even after the changeover to the euro. Values stated in crowns will be considered as values in euros, converted according to the conversion rate.

## Rules for Using the Conversion rate

When converting values stated in crowns to euros, only the specific **conversion rate defined by the Council of the European Union** can be used – not any other rate. The conversion rate will be specified to six significant digits and will define the value of one euro in crowns (i.e., EUR 1 = CZK XX.XXXX ).

## Rules for Rounding Amounts

Monetary amounts that were originally stated in crowns but that are to be paid in euros **will be rounded to the closest eurocent**. For services that are billed together, only the final value will be converted, not the individual entries. In certain special cases, specific rounding rules will be defined, namely for taxes, fees, and on-the-spot penalties. In these cases, rounding will be performed to the customer's benefit.

## Avoiding Price Increases and Perceived Inflation, Monitoring, and Checking

The implementation of the euro **cannot be misused for the purpose of unjustifiably increasing prices**. The development of prices will be monitored regularly. Adherence to the conversion rules and dual display of prices will be thoroughly controlled (5-6 months prior to the changeover to the euro and 1 year after). These procedures will be applied with the goal of preventing unjustified price increases and thus avoiding subjectively perceived inflation, which is greater than that stated in statistics.

## Minimizing Costs

The expenses accrued by individual entities as a result of preparations for the **changeover to the euro will be borne by each entity**. The state's role is to provide all entities with clear and timely information, as well as recommendations for preparing the changeover to the euro, in a manner whereby total expenses are minimized.

# Timetable for the Changeover to the Euro in the Czech Republic

Unfortunately, the chapter in the National Plan for Euro Introduction that is devoted to the timetable for implementing the euro does not answer the question of when the euro will actually be implemented in the Czech Republic. **It only specifies the relative timeframes** and precise scheduling for individual steps preceding the changeover to the euro in the Czech Republic and depends on the decision that will be made by the government and the Czech National Bank (CNB) on the actual date that the Czech Republic enters the European Union's fixed exchange rate mechanism, known as ERM II, and the Czech economy's long-term ability to reliably fulfil the Maastricht Criteria.

Nevertheless, from the perspective of the future replacement of the crown with the euro, we can identify **four time phases**. Currently we are in the first.

**Phase 1 – preceding entry to ERM II** – The first preparations for the changes related to the implementation of the euro are underway. The country is completing the entry procedures for the ERM II system in cooperation with the European Union authorities.

**Phase 2 – after entry to ERM II and until the decision is made to admit the Czech Republic to the Eurozone** (membership in ERM II must continue for a period of at least two years) – A communications campaign, preparation and acceptance of legislative changes, modifications to information systems, and other similar activities will take place. All additional steps are conditional on successful membership in ERM II and fulfilment of all the Maastricht criteria. The following steps will take place at the end of this phase:

- the European Commission and the European Central Bank (ECB) will publish a convergence report evaluating the level of sustainable convergence;
- the European Commission will provide the European Union Council with a recommendation to terminate the Czech Republic's derogation for the changeover to the euro in the Czech Republic;
- the European Union Council will rule on terminating the derogation for the changeover to the euro (by a qualified majority of votes); and

- the fixed CZK to EUR currency exchange rate will be defined by the European Union Council approximately six months prior to the Czech Republic's entry to the Eurozone.

**Phase 3 – between the European Union Council's decision to terminate the derogation for the changeover to the euro until the Czech Republic's date of entry to the Eurozone** – All of the country's technical preparations for its entry to the Eurozone must be completed. It is necessary to:

- ensure that the required number of euro banknotes are printed and coins minted for circulation;
- provide the CNB and commercial banks with euro currency (frontloading);
- provide the retail sector with euro currency within the framework of secondary frontloading (sub-frontloading);
- apply the rules for the mandatory dual display of prices; and
- ensure that automated bank machines, vending machines, and other equipment that requires coins or banknotes are prepared for the conversion.

**Phase 4 – after entry to the Eurozone** – It will be necessary to:

- apply the rules for dual circulation and ensure that the crown is removed from circulation and replaced with the euro;
- after the dual circulation period is over, continue exchanging the national currency with the euro at the central bank and at commercial banks;
- ensure adherence to the rules for the dual display of prices; and
- monitor the development of pricing levels and apply rules to prevent the misuse of implementation of the euro for the purpose of unjustifiably increasing prices.

## Institutional Arrangements in Preparation for the Changeover to the Euro

The **National Coordination Group for the Introduction of the Euro** in the Czech Republic, led by the National Coordinator, is responsible for the relevant institutional arrangements. The Ministry of Finance designated the overseer responsible for managing and coordinating all activities pertaining to the preparations for introducing the euro.

### National Coordinator and National Coordination Group

The central coordinating and guiding authority participating in the preparations for the implementation of the euro in the Czech Republic is the **National Coordination Group for the Implementation of the Euro**. It coordinates and manages the activities of individual working groups and supervises fulfilment of the National Plan for Euro Introduction in the Czech Republic and ensures the efficient completion of all related and ensuing steps.

The National Coordinator for the Implementation of the Euro is also the president of the National Coordination Group (NCG). On the basis of nominations from individual ministries, the NCG was established with the following structure:

- National Coordinator for the Implementation of the Euro;
- Vice-Governor of the Czech National Bank;
- Deputy Minister of Industry and Trade;
- Deputy Minister of Foreign Affairs;
- Deputy Minister of Justice;
- Deputy Ministry of the Interior;
- Deputy Minister of Informatics; and
- First Secretary to the Deputy Prime Minister for European Affairs.

### Working Groups for the Changeover to the Euro

The primary activities of the working groups initially consisted of **preparing the applicable sections of the National Plan for Euro Introduction** and providing information for the strategic decisions made by the NCG. Currently, working

group activities involve implementing the National Plan for Euro Introduction in the relevant areas and preparing regular updates.

The following working groups and relevant coordinators were designated for preparing the National Plan for Euro Introduction:

- **Legislation Working Group** – Coordinator: Ministry of Justice;
- **Financial Sector Working Group** – Coordinator: Czech National Bank;
- **Information Technology and Statistics Working Group** – Coordinator: Ministry of Informatics;
- **Public Finance and Public Administration Working Group** – Coordinator: Ministry of Finance;
- **Non-Financial Sector and Consumer Protection Working Group** – Coordinator: Ministry of Industry and Trade; and
- **Communication Working Group** – Coordinator: Ministry of Finance in conjunction with the CNB.

## Main Preparatory Tasks for the Changeover to the Euro in Individual Sectors

The individual sectors of Czech society and the requisite tasks they must complete in relation to preparing for the changeover to the euro and its acceptance are covered by the applicable working group (WG) based on its specific area of focus:

1. **banks and other financial institutions** – Financial Sector WG;
2. **public finances, public administration, and local government** – Public Finances and Public Administration WG;
3. **non-financial sector and consumer protection** – Non-Financial Sector and Consumer Protection WG;
4. **legislative requirements for changing over to the euro** – Legislation WG;
5. **information resources and implementation** – Communication WG; and
6. **information and statistical systems** – Information Technology and Statistics WG.

### 1. Banks and Other Financial Institutions

Within the process of changing over to the euro, the primary task of the domestic financial sector, including the Czech National Bank, will **ensure that the common European currency is implemented in both cash as well as non-cash environments**.

#### Introducing the Euro in Cash Circulation

- The Czech National Bank will ensure that a sufficient amount of euro banknotes and coins (to be borrowed from one of the banks within the framework of the Eurosystem) is available.
- Euro cash will be distributed within the economy – frontloading to banks will commence three months prior to the changeover to the euro; for non-financial entities (stores, post offices, automated bank machine operators, etc.), it will start one month prior to the changeover to the euro.
- The Czech crown will be removed from circulation. Crowns will be exchanged for euros at the CNB, commercial banks, and other selected entities for a period of at least six months after the changeover.

#### Introducing the Euro in Non-Cash Payment Relationships

- Accounts, payment cards, and other products (cheques, credit products, letters of credit, guarantees, and exchange notes) will be converted.
- The CNB must enter the TARGET European payment and billing system that is administered by the European Central Bank. The domestic CERTIS system must be modified.
- Entry into the Single European Payment Area (SEPA) is mandatory.
- Automated bank machines and payment terminals installed in stores must be converted.

## Adaptation of the Banking Sector and Other Financial Sector Entities to the Common European Currency

- Securities and other financial market instruments must be converted. (Nominal values stated in crowns will be converted using the required conversion rate and then appropriately rounded.)
- Market stock and bond indexes have to be adapted.
- Referential rates have to be replaced (Pribor will be replaced by Euribor; the Czech CNB 2W repo rate will be replaced by the ECB Main Refinancing Operation Rate).
- The information systems used by financial sector entities have to be converted.
- Account statements, financial institution pricelists, general conditions, etc. have to be updated to include dual pricing.

## CNB Preparations for the Changeover to the Euro

- Preparatory tasks have to be completed from the perspective of introducing the euro in non-cash and cash payment relationships.
- Monetary policy functions required for participation in the Eurosystem have to be put in place. At the moment of the changeover to the euro, the CNB will become a part of the Eurosystem, which consists of the European Central Bank and the central banks of those countries that have already introduced the euro.
- Some of the Czech National Bank's competencies will be transferred to the European Central Bank, specifically in the area monetary policy and legal jurisdiction pertaining to the issuance of currency.

## Implementation of Required Changes in Legislation Pertaining to the Financial Sector

- Czech National Bank statutes have to be amended.
- A general law on the introduction of the euro must be implemented.
- Special legal standards for the financial sector have to be put in place. These include standards pertaining to: (i) the conversion of amounts to euros (in relation to registered capital and penalties); and (ii) the removal of any resulting incompatibilities (in situations when Czech legislation is in conflict with European directives).

## 2. Public Finances, Public Administration, and Local Government

In relation to the introduction of the euro, public administration authorities not only have to ensure the capability of their own activities, they also have to **establish the rules for the private sector, local administration, and residents**. It is therefore of the utmost importance that the state provide a clear and high-quality methodology early enough to ensure that all entities can start their preparations for the changeover to the euro sufficiently ahead of time and can distribute the required investments over the longest possible period of time.

### State Budget, Local Government Budgets, and State Funds

- All monetary values used for preparing and implementing the state budget, final state accounting, and expressing the financial relationships between the state budget and the budgets of individual regions and municipalities will be expressed in euros
- The budgets for local government, state funds, and other funds included within the public financing sector and governmental sector will also be expressed in euros.

### State Debt Administration and Financial Assets

- All state bonds and other state obligations will be converted to euros.
- All of the state's financial assets will be converted to euros.

### Accounting, Reporting, Taxes, Customs Duties, Wages, and Salaries

- The annual statement for the accounting period in the year prior to the changeover to the euro (€-1) will be stated in CZK as well as EUR. All entities, even those whose fiscal year does not equal the calendar year, will be required to prepare an annual financial statement as of 31 December of the year €-1.

- Tax returns for the year €-1, which will be submitted in year €, will be expressed in crowns. The final tax obligation will be converted to euros and paid in euros.
- Customs duties will be converted from crowns to euros using the standard conversion rate. As far as local fees are concerned, it is more likely that new fees will be assessed in euros rather than converting existing ones.
- Payslips will express values in both crowns as well as euros for the entire period of time that the dual display of prices is required (5-6 months prior to the changeover to the euro and 1 year after it is introduced).

### **Prices and Pricing Policies**

- The task assigned to the pricing authorities is the preparation of all necessary changes in the area of pricing regulations and pricing controls, including applicable penalties.
- Cooperation with consumer protection groups is important.

### **Social Security**

- Pension payments as of 1 January of year € will be stated in euros.

## **3. Non-Financial Sector and Consumer Protection**

The goal of the procedures performed within the non-financial and consumer protection sectors is to prepare the business sector for the changeover to the euro, make the transition to the euro as easy and simple as possible for residents, and, above all, **protect consumers against unjustified price increases** as a result of the conversion of prices to the euro.

### **Price Conversion and Dual Display of Prices**

- As of the date the changeover to the euro takes place in the Czech Republic, all prices will be converted unilaterally from Czech crowns to euros according to the stipulated conversion rate.
- Approximately six months before (one month after the conversion rate is defined) and one year after the changeover to the euro, businesspersons and service providers will be obligated to specify prices – on price tags, pricelists, as well as the final amounts on bills, account statements, etc. – in their monetary value in both crowns and euros.

### **Dual Circulation**

- For a brief period of two weeks, both currencies will be in circulation, whereby the legal currency will be the euro. The Czech crown will gradually be removed from circulation and any cash returned will only be in euros.

### **Ethics of Changing Over to the Euro**

- In order to ensure compliance with the ethical rules of changing over, it will be appropriate to conclude an agreement between consumer groups on the one side and professional associations and enterprises from the sales and service sector on the other. The subject of this fair-pricing agreement should address the voluntary obligation to use only the one, specifically stipulated conversion rate and the established rounding rules during the conversion to euro phase.

### **Price Monitoring, Controls, and Dispute Resolution**

- Monitoring must concurrently provide both the executive authorities as well as the business and consumer sectors with information in order to regularly evaluate the course of the changeover to the euro and to smooth the course of the transition as applicable.
- Not only standard investigations and evaluations will be used for the monitoring process, but also above-standard methods (one-time or temporary) in areas that other resources do not cover.

### **Primary Business Aspects of the Changeover to the Euro**

- Based on foreign experiences with the changeover to the euro, the process went smoothly in large and medium-sized companies and institutions if a specific individual was assigned responsibility for the changeover to the euro.
- Small and micro-sized enterprises do not have sufficient capacity to allocate for the purpose of managing the changeover to the euro. In these cases, a supporting role should be provided by information sites for entrepreneurs and financial institutions.

- The business sector should anticipate the necessity of making investments sufficiently ahead of time in order to adapt reporting, computer systems, hardware and software for data processing, and, last but not least, employee training.

#### 4. Legislative Requirements for Introducing the Euro

The primary purpose behind the legislative process is to introduce the euro as the legal tender of the Czech Republic. For this purpose, a comprehensive system of generally binding legal regulations must be accepted within each individual area of the domestic legal code. A mainstay principle that must remain in place is the **maintenance of all rights and obligations in the same form** in which they were established prior to the introduction of the euro in the Czech Republic.

##### **BOX: Overview of legislation pertaining to the introduction of the euro, including the justice system**

- An abrogation of the Czech Republic's derogation (on the basis of Article 4 of the accession conditions and Article 122 of the Treaty Establishing the European Community), will result in the remaining provisions of the Treaty, which pertain only to Eurozone countries, becoming binding for the Czech Republic.
- Regulation No 1103/97 on certain provisions relating to the introduction of the euro amended by Regulation No 2595/2000.
- Regulation No 974/98 on the introduction of the euro amended by Regulation No 2596/2000, Regulation No 2169/2005 and Regulation No 1647/2006.
- Regulation No 2866/98 on the conversion rates between the euro and the currencies of the Member States adopting the euro amended by Regulation No 1478/2000 and Regulation No 1086/2006.

#### General Act

The general act on introducing the euro will be the main Czech legal regulation that establishes the prerequisites for ensuring a smooth changeover to the new currency in the Czech Republic. The contents of the general act, which will become valid as of the date the euro is introduced, will include measures pertaining to the introduction of the euro as the legal tender of the Czech Republic, specifically:

- reference to the conversion rate and the method to be used for converting from the crown to the euro;
- main principles of rounding;
- converting prices and dual display of prices;
- the method to be used for converting monetary resources maintained in bank accounts;
- the method to be used for converting securities and other investment instruments;
- a guarantee ensuring that all legal obligations concluded at an earlier date, as well as administrative and judicial rulings passed at an earlier date, remain unchanged; and
- rules for exchanging circulated currency.

#### Act on the Czech National Bank

- The act will ensure the transfer of certain decision-making competencies to the Board of Governors of the European Central Bank, specifically in the area of monetary policy.
- Pursuant to the act, the monetary policy that will be practised in the Czech Republic will be EU monetary policy, which is established taking price stability in the Eurozone into consideration.
- The act will also include the necessary provisions for including the CNB in the European system of central banks for the purposes of printing euro banknotes and minting euro coins and ensuring that they are placed in circulation.

#### Other new legal regulations and amendments

- These include any other legal regulations that, due to a higher degree of legal guarantees and practical impact, cannot be spanned by the general act or directly applicable EU directives, i.e., tax legislation, legal regulations for accounting, social security, and public health insurance, and other legal regulations as designated by individual ministries.

## 5. Information Sources and Communications

The chapter titled "Information Sources and Communications" in the National Plan for Euro Introduction in the Czech Republic **describes the information and communications campaign** that will be implemented with the goal of contributing to the smooth and problem-free changeover to the euro in the Czech Republic. Every resident, the private sector, and the public sector will all have to be informed accurately, on time, and in sufficient scope of all circumstances that impact them as a result of the introduction of the euro.

### Campaign Target Groups

**1. Residents** – the primary target of the campaign and covering various roles (consumers, employees, pensioners, etc.), with special emphasis focused on:

- schoolchildren and students;
- pedagogical employees;
- vulnerable groups (low-income families, the disabled, the socially disadvantaged, the long-term unemployed, senior citizens, etc.);
- ethnic minorities; and
- foreigners and expatriates.

**2. Private sector** – specifically:

- sole traders and entrepreneurs;
- small and medium-sized enterprises; and
- non-profit organizations.

**3. Public administration** – specifically:

- regions, cities, and municipalities.

**Information intermediaries** will play a vital role in the information campaign. These include:

- consumer groups and professional alliances, unions, chambers, and associations;
- financial institutions;
- the media;
- large corporations;
- central government authorities;
- regions, cities, and municipalities; and
- other entities – the Czech Postal Service, Czech Railways, bus transport operators, Czech Airlines, hospitals, etc.

### Communication Resources

Communication resources will be used as applicable with regard to the needs of each target group:

- internet information websites pertaining to the changeover to the euro in the Czech Republic;
- communications tools available for providing information on European issues (the Euroskop web portal, Eurokurýr magazine, Eurocentre information centres, and the free Eurofon telephone information line);
- communication tools provided by the European Commission's representative in the Czech Republic (the Europe Direct network), and other available communication tools;
- PR activities performed by individual institutions;
- printed materials – both those published by the European Commission as well as those produced domestically;
- paid media advertisements as a source of undistorted information;
- audiovisual and multimedia materials – videocassettes, CDs, and DVDs, primarily those designated for local government and educational institutions;
- professional conferences, lectures, training sessions, and seminars;
- promotional materials; and

- special events, such as “Euro Day” – events organized for the general public at the time the most intense part of the campaign starts.

A national logo and slogan for introducing the euro will be selected within the framework of the campaign.

## 6. Information and Statistical Systems

As a result of rapid advances in IT, when considering the purchase or creation of information systems and information technology in general, it is necessary to keep in mind the fact that the euro will become the Czech Republic’s national currency within a matter of several years

This change will, above all, impact all **financial information systems and those systems used by companies and public administration authorities** to manage accounts. Indirectly, the changes will also affect all tools designated for processing and handling financial information, i.e., primarily software. The changeover to the euro will also, however, have an effect on certain types of hardware (i.e., that used in cash registers, price tag printing equipment, price scanners, etc.).

### Measures for the Ministries, Other Central Government Authorities, and Local Government Authorities

At this time, the main task involves mapping out the current status of the information systems used within these institutions with regard to how closely they are interlinked with the changeover to the euro and in relation to applicable legislative changes. At the same time, it is necessary to establish a general methodology that public administration authorities should apply during the changeover to the euro.

In the area of statistics, close cooperation with the Czech Statistical Office is required.

### Measures for Implementing the Euro in the Business Sector

Within the business sector, the most important task likewise consists of mapping out the current status of information systems and their interdependencies as related to the changeover to the euro and with regard to any legislative changes that might apply. General recommendations should be prepared concurrently, which will prepare the business sector for the changeover to the euro in a timely manner. Within each company framework, the person designated as the internal euro coordinator will play an indispensable role.

A wide range of changes will have to be considered in the IT area, including changes to billing, accounting, financial management, the conversion of tables used for processing, and rounding differences.

### Description of the Most Important Tasks

- Identify the information systems that will be impacted by the changeover to the euro.
- Designate the individuals responsible for the changeover to the euro within individual institutions and companies.
- Monitor the mutual interfaces between systems (internal and external).
- Define priorities.

### Costs and Risks Associated with the Changeover to the Euro

1. **Costs:** These primarily consist of the one-time expenses related to conversion from the crown to the euro. The time required for eliminating this problem through gradual modifications and IS updates is estimated to be 2-3 years. The amount of expenses is dependent on the size of an entity, the type of activities performed, and the ability to adapt to legislative changes. The delayed definition of IS modifications will result in pressure to implement the changes quickly, with the end result of higher costs.
2. **Risks:** The most significant include:
  - underestimation of the complexity of required IS changes from the perspectives of time, labour, and finances;
  - delayed methodological procedures ensuing from amended legislation ;
  - an insufficient amount of professionally experienced human resources;
  - the non-existence of a testing environment for testing modifications under live operating conditions; and
  - obsolete hardware and software.

## Conclusion

The first published version of the National Plan for Euro Introduction in the Czech Republic is **more of a technical document**. Its goal is to provide Czech entities (government authorities, municipalities, the private business sector, residents, and the non-profit sector) with a set of recommended guidelines, procedures, and instructions, which will enable them to deal better with the preparations and conversion required in relation to the changeover from the Czech crown to the euro as the common European currency.

The National Plan for Euro Introduction also includes the estimated timetable for the steps related to the changeover to the euro. Unfortunately, it is only provided in relative terms and not in absolute form, i.e., with specifically designated dates. We also **still do not know the official date of entry to the Eurozone**. Only estimates made by the responsible institutions are available. For the most part, these include the year 2012.