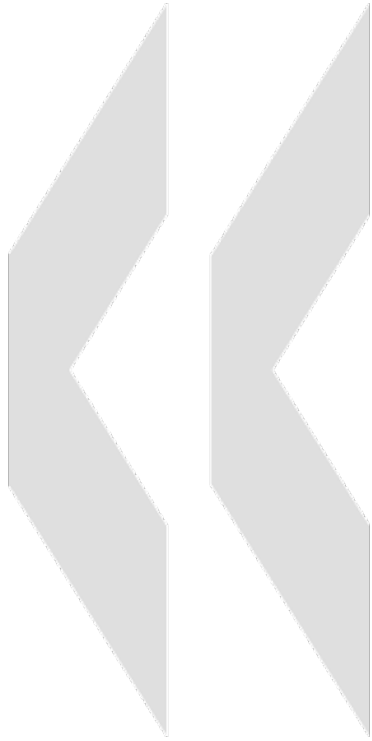




OCDE ORGANISATION DE COOPÉRATION ET
DE DÉVELOPPEMENT ÉCONOMIQUES



Background paper 1: The impact of euro adoption on inflation in the Slovak Republic

Isabell Koske, OECD

Significant changeover related price hikes will most likely take place in service sectors.

Sector	Number of countries with significant changeover effect	Average size of changeover effect (in %)
Cleaning, repair & hire of clothing	9	3.0
Hairdressing salons & personal grooming establishments	9	2.4
Newspapers & periodicals	8	5.1
Recreational & sporting services	8	5.4
Domestic & household services	6	4.8
Restaurants, cafés & the like	6	2.0

The HICP weights of the sectors imply a changeover-related increase in the aggregate euro area HICP of 0.3%. The calculations for the Slovak Republic point to a similar changeover effect.

Higher income households are likely to be more affected by the changeover.

	Price level effect (in %)	Financial impact per household (in €)
Average household	0.20	14.9
By income quintile		
First income quintile	0.15	7.1
Second income quintile	0.15	9.0
Third income quintile	0.20	14.2
Forth income quintile	0.20	15.5
Fifth income quintile	0.26	29.1

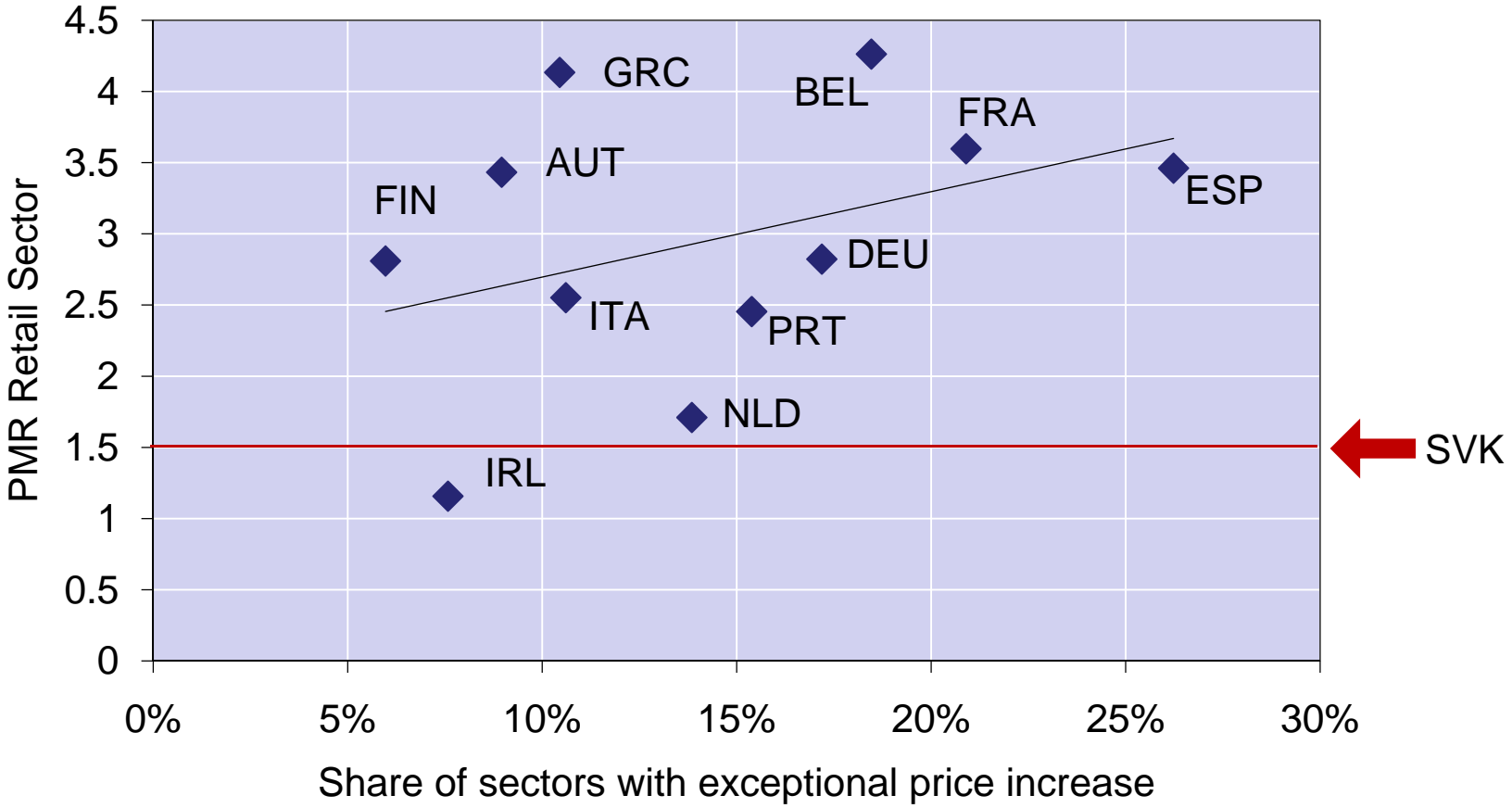
Households with children are likely to incur higher costs due to the changeover.

	Price level effect (in %)	Financial impact per household (in €)
By household type		
Single person	0.14	5.1
Single parent with dependent children	0.19	10.8
Two adults	0.16	10.3
Two adults with dependent children	0.25	20.9
Three or more adults	0.23	22.0
Three or more adults with dependent children	0.20	20.0

The unemployed and the retired are likely to experience smaller losses in purchasing power.

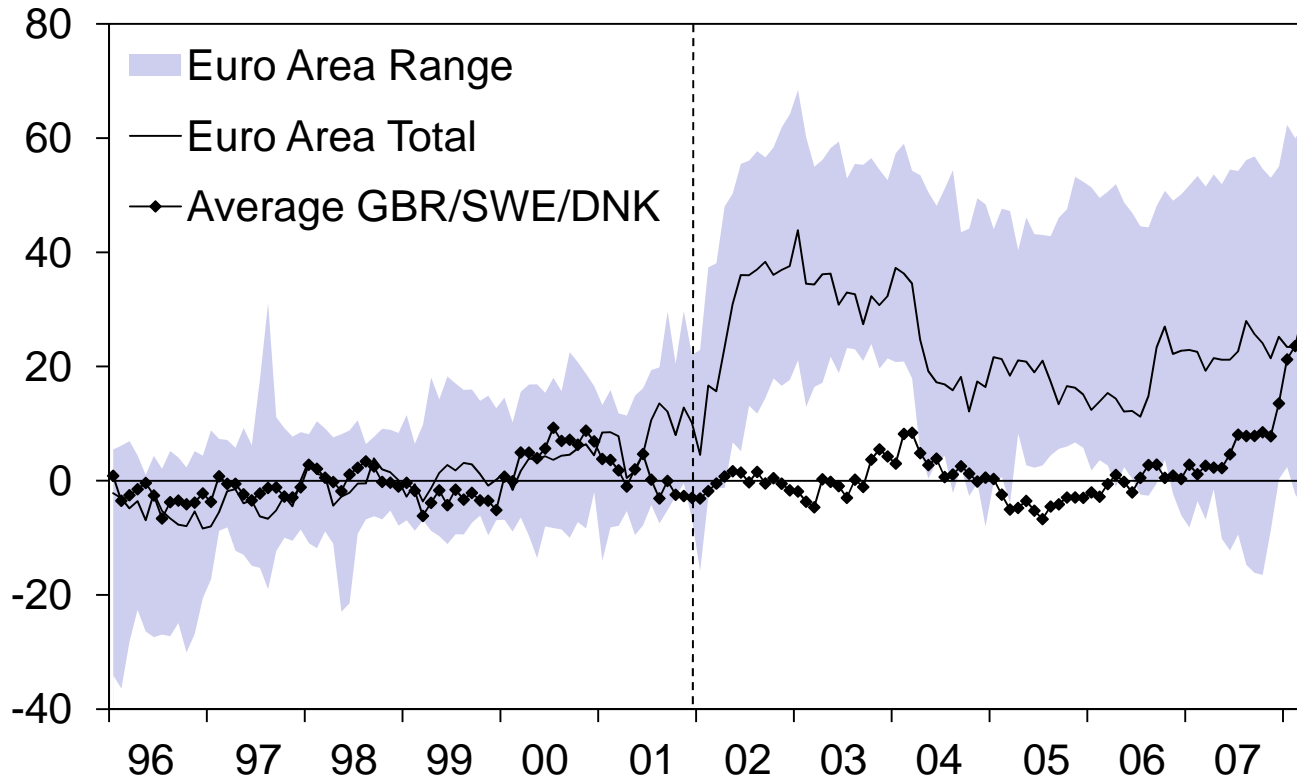
	Price level effect (in %)	Financial impact per household (in €)
By socioeconomic category of reference person		
Manual workers	0.20	16.1
Non-manual workers	0.26	24.2
Self-employed	0.26	25.0
Unemployed	0.09	4.1
Retired	0.10	4.5

Price hikes were more prevalent in countries with low product market competition.

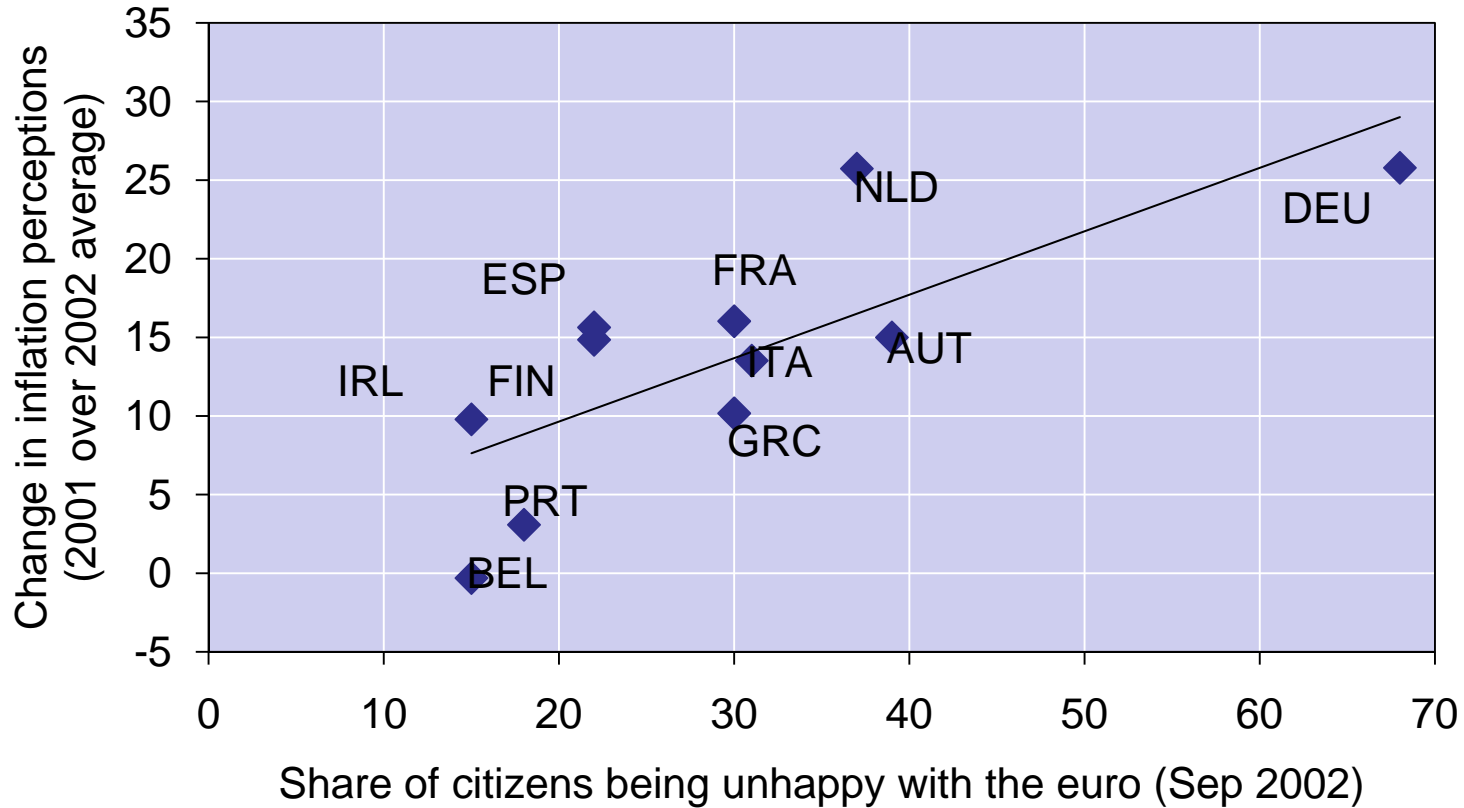


The positive relationship between PMR and the changeover effect is confirmed in a formal regression analysis.

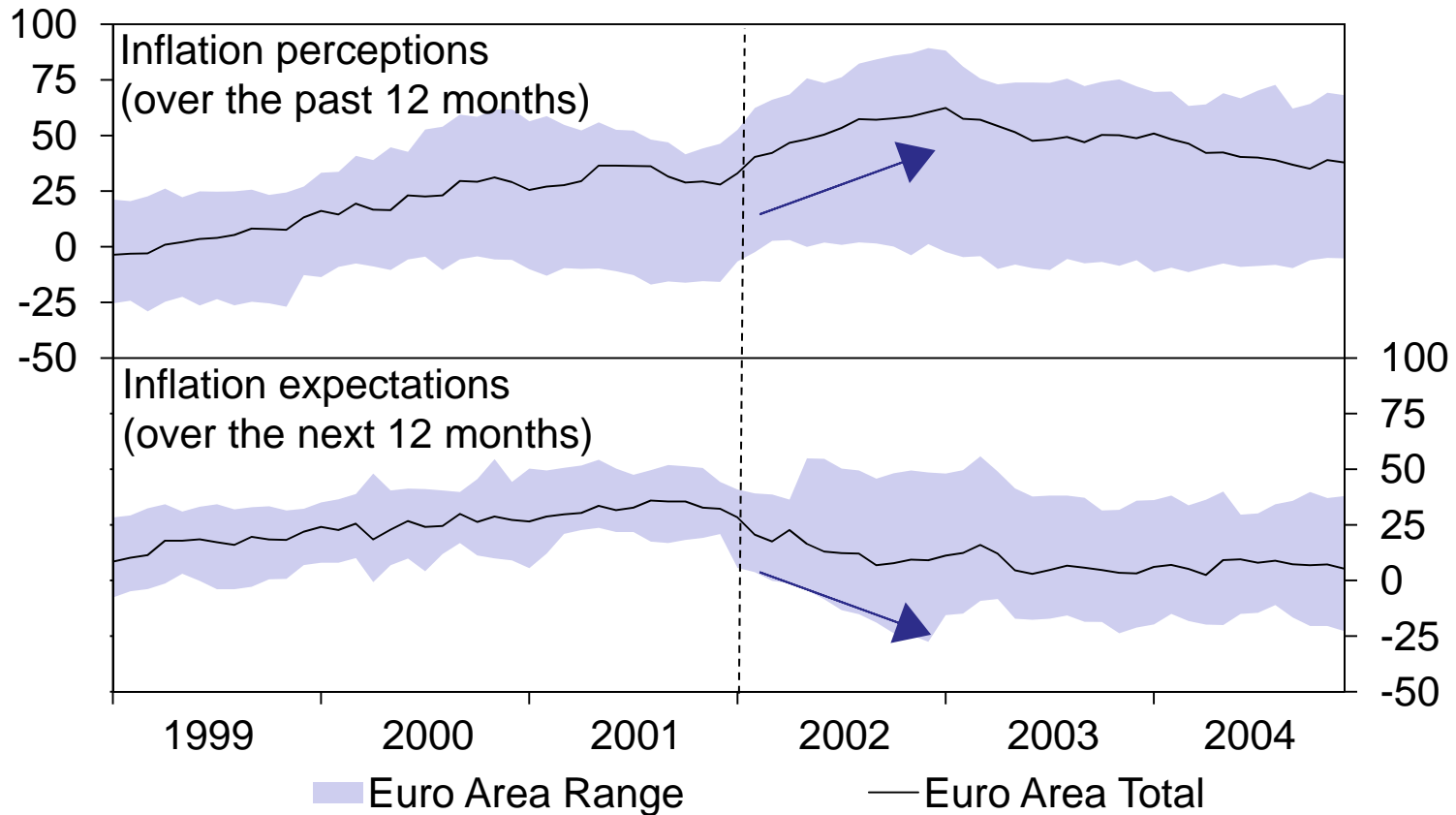
Although changeover effects were small, inflation perceptions increased markedly.



A rise in perceived inflation may contribute to a negative attitude towards the euro.



Inflation expectations did not pick up in the aftermath of the changeover.



If the Slovak case replicates earlier experience, a widening of the perception gap is unlikely to have consequences for actual inflation as the effect will most likely be perceived as temporary.