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

**First report on the practical preparations for
the future enlargement of the euro area**

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1. INTRODUCTION

The eventual introduction of the single currency will be a milestone event for all future euro-area entrants, just as it was for the countries in the present euro area. The new Member States joined the European Union as “Member States with a derogation”¹ by virtue of Article 4 of the Accession Treaty. The eventual adoption of the single currency forms part of the requirements laid down in the Treaty and these countries will therefore introduce the euro as soon as they have fulfilled the necessary conditions. Many of the newly acceded Member States have indicated that they would like to join the euro area as soon as possible, and are therefore making efforts to comply with the entry conditions, notably the “Maastricht” convergence criteria, which are designed to ensure sustainable economic convergence of all future euro-area entrants. The preparations for the practical introduction of the euro have taken nearly six years in the countries which are presently part of the euro area. New Member States must therefore start preparing themselves in order to be ready in time and to ensure a smooth changeover.

1.1 Steps leading to the adoption of the euro

The degree to which the different countries have met the requirements laid down in the Treaty in order to allow them to adopt the euro are evaluated by the Commission and the ECB in their regular convergence reports². Article 122(2) of the Treaty provides that, on a proposal by the Commission, the Council decides which Member States fulfil the necessary conditions and consequently abrogates those Member States’ derogations. The Council moreover decides the date on which the Member States concerned will join the euro area and determines the fixed and irrevocable conversion rate between the country’s national currency and the euro. On the date of adoption of the euro, the conversion rate becomes effective, the country’s former national currency ceases to exist and responsibility for monetary policy is transferred to the ECB. This occurred on 1 January 1999 for the first eleven countries joining the euro area and on 1 January 2001 for Greece.

For practical and logistical reasons, the current euro-area countries introduced a transitional period of three years (a single year in the case of Greece) between the adoption of the euro as a currency (1999 for eleven countries and 2001 for Greece) and the introduction of euro cash. The main alternative is the so-called “big bang” scenario in which entry into the euro area coincides with the introduction of euro banknotes and coins. This approach has a number of

¹ With respect to the adoption of the euro, Denmark and the United Kingdom have a special “opt-out” status. The ten new Member States and Sweden are Member States with a derogation. The referendum held in Sweden on 14 September 2003 showed that a majority of the population did not favour accession to the euro area.

² The latest convergence reports were issued on 20 October 2004 and concluded that none of the eleven Member States with a derogation currently fulfilled *all* the necessary criteria (sustainable public finances, price stability, exchange-rate stability *over the required period*, level of long-term interest rates). In view of the conclusions of its convergence report, the Commission decided not to put forward any proposal for abrogating derogations.

advantages, particularly now that euro banknotes and coins already exist. The main disadvantage is that it reduces the period available for the public and private sector, and citizens generally, to prepare for the changeover. The introduction of euro banknotes and coins is followed by a period of dual circulation during which banknotes and coins denominated in euro and in national currency both have legal tender status. The length of the period of dual circulation is typically decided at national level although it is usually kept relatively short, at a maximum of two months.

1.2 Purpose of the report

Successful entry into the euro area not only requires compliance with the Treaty requirements, but also carefully planned and extensive practical preparations, which involve both the public and private sector, and even the public at large. The Commission will report on a regular basis, at least once a year or whenever justified by specific developments, on the state of these preparations. The present Communication constitutes the first such report. Contrary to the convergence reports, it does not stem from any legal or other obligation, but results from the Commission's intention to keep all relevant parties, in particular the Community institutions and the Member States, as well as the interested public and the media, properly informed about progress being made in this important area. In terms of timing and issue frequency, the Commission's reports on the state of practical preparations will thus not be linked to its convergence reports.

The overall framework and the key elements of the transition to the new currency are generally laid down in a country's "changeover scenario", and many of the countries concerned are presently in the process of drawing up such scenarios. As regards Sweden, a referendum was organised on 14 September 2003, which indicated that a majority of the population was not in favour of joining the euro area at the time. The outcome of the referendum effectively stalled the practical preparations in Sweden.

2. CURRENT PLANS FOR EURO ADOPTION

Three Member States with a derogation (Estonia, Lithuania and Slovenia) joined ERM-II on 28 June 2004. All three countries would like to join the euro area as soon as possible (2007). Most of them have adopted national changeover plans and appointed national co-ordinators for the changeover. A single-step transition to the euro (the "big bang" scenario), whereby euro banknotes and coins would become legal tender on the date of entry into the euro area, is generally favoured. The selection procedure for the design of the national side of the euro coins is either under way or has already been completed.

The official plans and intentions in most other countries are gradually taking more concrete shape. Many countries plan to join the euro area at a somewhat later stage, towards the end of the decade, although much will obviously depend on their degree of compliance with the convergence criteria.

The state of preparations is summarised in the table below, which is generally based on information made public by the national authorities concerned, and which is meant to reflect the national decisions and positions on the different relevant issues. The Member States are listed in the order set by the Treaty.

COUNTRY	NATIONAL CO-ORDINATOR	NATIONAL CHANGEOVER PLAN OR SIMILAR SCENARIO	ERM II ENTRY	NATIONAL TARGET DATE FOR EURO ADOPTION	BIG BANG OR TRANSITIONAL PERIOD	EURO COINS
Czech Republic		Czech Republic's Euro Accession Strategy, (approved by the Government in October 2003)		2009-10		Competition under consideration
Estonia	The Commission of Ministers (incl. CB Governor)	Joint statement by the Estonian Government and the Bank of Estonia, 16 th Jan. 2004	28.6.2004	mid-2006		Competition launched in June 2004; final selection due in December 2004 ³
Cyprus	Joint co-ordination by the Minister of Finance and the Central Bank of Cyprus is considered	A general preliminary framework has been prepared	The Council of Ministers has recently decided to submit an application at the earliest	2007	Big Bang	Launch of competition to be scheduled
Latvia	Changeover working group in the Bank of Latvia, consultations between MoF and the central bank	Preliminary changeover plan		1.1.2008	Big Bang	Competition launched
Lithuania	Working group in the Bank of Lithuania for the development of the changeover plan	Preparation of the changeover plan outlines by December 2004 and the strategic framework for the co-ordination of the project	28.6.2004	1.1.2007 (tentative)	Big Bang parallel circulation 2-3 weeks	Final procedure of the tender for the creation of the gypsum models
Hungary	With regard to the target date 2010, preparatory work is under way in the Ministry of Finance and			2010		

³ By the closing date of the competition on 19 October 2004, 134 designs have been submitted. The panel of experts will chose by mid-November the ten best designs and the final choice will be made in December 2004 through a nationwide telephone voting procedure.

	Magyar Nemzeti Bank (Central Bank of Hungary).					
Malta	A co-ordinating body charged with leading the process has still to be formally appointed. Ongoing consultations are in process between MoF and the central bank.	Preliminary changeover plan being drafted by the MoF and the central bank		2008	Still to be determined	Implementation plan covering whole process from competition stage to actual minting drawn up
Poland	Interinstitutional working group MoF-NBP			2009	Still to be determined	Public survey
Slovenia	Co-ordinating body (Ministry of Finance, central bank, other ministries and bodies)	Programme for ERM II Entry and Adoption of the euro (approved by the Government and the Governing Board of the Bank of Slovenia, Nov. 2003) Sectoral Master plans	28.6.2004	1.1. 2007	Big Bang (dual circulation: 2 weeks)	Competition launched
Slovakia	Ministry of Finance	Specification of the Strategy for Adopting the Euro in the SR, approved by the government in September 2004. National changeover plan to be approved by mid-2005		1.1.2008/2009	Big Bang	Competition launched

3. PAST AND FUTURE ENTRIES INTO THE EURO AREA: SIMILARITIES AND DIFFERENCES

The changeover of the future euro-area entrants will have certain elements in common with previous changeovers and moreover benefit from lessons learned in the past. Some major differences are also highlighted.

3.1 Lessons drawn from the previous changeover

While the first changeover was a big success, there is room for improvement in several respects. The main lessons from the experience of the first-wave countries are the following:

- (i) Careful and pro-active preparation pays off. Countries which invested in early, thorough preparations were rewarded for their efforts in terms of speed of the changeover, public acceptance of the new currency and smoothness of the transition. Investment in communication and information was equally rewarded.

This is the key lesson of the initial changeover and explains why the Commission and the countries in the next wave have already started discussions on practical preparations.

The results of the latest Eurobarometer (section 4) confirm that the need for precise and timely information remains as important as it was in the past. A lack of information could lead to fearful or even hostile reactions, which could easily be avoided.

- (ii) The transitional period of three years was too long. Some momentum was lost after 1999 and the public authorities had to renew their efforts to (re-)convince enterprises and citizens to prepare in time for the cash changeover. Moreover, the use of the “scriptural” euro remained rather limited during the transitional period.

For a number of reasons, explained in section 3.2, mainly related to the need for a swift cash changeover, a long transitional period is not advisable for future euro-area entrants. However, for processes such as the changeover of information systems in the public and private sector, the lead times will remain as long as they were in the original euro-area countries. Consequently, since the changeover itself will be shorter, the preparations will have to start at a very early stage.

However, since the transitional periods currently being envisaged by the countries concerned are likely to be shorter, the complexity involved in using two currency units (the euro and the national currency) simultaneously will be reduced and the transition will thus be simpler to explain and to understand.

- (iii) The introduction of euro notes and coins needs to be swift: A “gradual” introduction of euro cash creates complications for citizens and enterprises alike. A rapid introduction benefits all parties involved, provided it is carefully prepared. The same applies to the period of dual circulation, which should preferably be short.

As demonstrated by the cash changeover in the current euro-area countries, a swift introduction of euro cash will need to be based on extensive frontloading and sub-frontloading, the immediate changeover of all ATMs, the giving of change by retailers exclusively in euro and the possibility for customers and non-customers of banks to exchange legacy currency into euro at no cost.

In this respect, the importance of card-based payments and e-payment needs to be emphasised. Such payment methods contributed considerably to the smooth transition, particularly in the retail sector.

- (iv) The withdrawal of the national currency requires careful preparation: in the original changeover, probably too much focus was put on the introduction of the euro notes and coins, while the consequences of the huge backflow of legacy currency were underestimated. In particular, the logistical measures to cope with the huge quantities of returned coins were not always in place, and sometimes gave rise to significant delays in the shipping, processing and counting of coins and the crediting of accounts.
- (v) Measures should be taken to avoid any impact on prices. This requires special attention, since it is difficult to tackle and often based on misperceptions which are difficult to correct. Prevention is definitely better than cure.

The Eurobarometer results clearly show that citizens' awareness of this issue is already high. The risk of abuses and cheating on prices during the changeover is a key concern for 71% of the respondents (average for all the newly acceded Member States). However, it is worth noting that there are marked differences between countries. The breakdown by socio-demographic categories does not lead to any clear conclusions, except that older people are more apprehensive on this issue than the young.

The correct conversion of prices by shopkeepers and retailers in general will unquestionably require careful preparations by the authorities concerned, for example in the form of price-stability agreements negotiated with the retail sector and closely monitored before and after the changeover, preferably with the active involvement of consumer protection organisations and professional organisations of the retail sector at the national and European level. The authorities might also require individual retailers to publicly display their commitment to ensuring an exact price conversion, for example by means of stickers or signs and by actively encouraging the use of dual display of prices during a certain period before and after the introduction of the euro cash. Both means would increase credibility and enable consumers to bring pressure to bear on retailers. Such measures should help alleviate fears and contribute to a smooth transition.

- (vi) The “mental” changeover takes considerably more time than the physical changeover. Survey results dating from November 2003 showed that 30% of respondents most often thought in national currency when doing day-to-day shopping, as opposed to 46% most often thinking in euro. For large-value purchases (e.g. house or car), however, the majority of euro-area citizens still counted mentally most often in national currency (54%), while only a small minority (16%) counted in euro.

3.2 Main differences with the previous changeover

While some common elements will apply, it should be borne in mind that the newly acceded Member States have many country-specific characteristics and peculiarities. In general terms, the key differences with the first-wave changeover will be the following:

- (i) The future enlargement of the euro area will occur in several successive waves. It is very unlikely that the pre-ins will join as a single group. It is expected that small groups of countries (or individual countries) will join in a particular year.

Therefore, the collective momentum of the first-wave euro-area countries will not exist to the same extent, and future enlargements of the euro area will have less external visibility outside the countries directly concerned. At the same time, the fact that many countries have already adopted the single currency will facilitate the changeover in certain respects, as discussed below.

- (ii) Euro banknotes and coins already exist, and most citizens in the newly acceded Member States are already familiar with them. In certain shops, mainly in tourist areas and border areas, the euro is already used and accepted for payment. This may reduce the need for significant frontloading operations in certain sectors. Some citizens and companies may also want to acquire some euro cash abroad, particularly when living in relevant border areas. In addition, citizens outside the euro area are already allowed to open euro accounts with their domestic banks. For those who have chosen to do so, the changeover is already under way.

The latest Eurobarometer (section 4) shows interesting evidence of the practical experience already gained by citizens in the ten newly acceded Member States. It appears that most citizens in these Member States (73% on average) have seen euro banknotes, and that 66% on average have seen euro coins. In some countries, these figures reach extremely high levels, e.g. 95% of respondents in Slovenia have already seen euro banknotes and 87% have seen euro coins. The figures for Cyprus amount to 85% (banknotes) and 82% (coins). People are least familiar with euro cash in Latvia, although even there more than half of the population have seen euro banknotes (67%) or euro coins (55%).

When it comes to the use of euro banknotes and coins, the figures are obviously smaller but still significant: 49% on average of the population in the newly acceded Member States have already used banknotes and 50% have used euro coins. Here again, some countries are taking the lead, e.g. Slovenia (81% and 79% have used euro banknotes and coins respectively) and Cyprus (76% and 77%). The lowest figures for experience of use of euro cash are found in Lithuania (40% and 39%). More interestingly, the Eurobarometer results show that 18% and 15% respectively of respondents have already used euro banknotes and coins in their own country. These figures clearly indicate that the euro is already informally used for certain transactions. In countries such as Latvia, Lithuania and Poland, the figures rise to a significantly higher level (34%, 31% and 28% respectively for euro banknotes and 27%, 20% and 24% for coins).

- (iii) The transition from the national currency to the euro is expected to be much faster. Many countries are considering a “big bang” approach whereby the date of entry into the euro area coincides with the date of (official) introduction of euro cash. A majority of the newly acceded Member States (CZ, EE, LV, LT, PL, SI, SK) have undertaken a currency conversion in recent years and gained valuable experience in the process.

The existence and wide availability of euro cash also plays an important role in this approach. Some of the elements which appeared to be of crucial importance for the success of the first changeover will therefore play a smaller role in future. Euro cash can be easily acquired before its official introduction in the country, and some

citizens and companies might choose to prepare themselves well in advance. Frontloading and sub-frontloading⁴ of economic operators will probably again play a role in ensuring a rapid changeover by making sure that sufficient quantities of cash are in place as of €-day. The sub-frontloading of citizens with certain amounts of small-denomination banknotes as well as coins would also be conceivable.

Future euro-area entrants will have a particular interest in making the changeover period as short as possible, since the countries could otherwise potentially face a period of informal dual circulation in certain sectors during which the euro could be actively used by citizens and retailers before it becomes the legal tender.

- (iv) The size and extent of the necessary adaptations to be made in certain areas will differ from the earlier changeovers in the euro area. For example, the number of ATMs per capita is lower than in the euro area, although fairly significant. ATMs help in speeding up the early introduction of euro cash into the economy. Past experience demonstrates that a large proportion of euro banknotes were put into circulation via cash dispensing machines, notably due to their availability around the clock, particularly when bank branches are closed. The high number of bank and post office branches per capita (more or less similar in most countries to the euro-area average) will somewhat mitigate the lower number of ATMs since it will help citizens to acquire the necessary amount of euro banknotes and coins early in the changeover process. Special measures (longer opening hours, week-end openings, etc.) may need to be envisaged.

The number of POS terminals is relatively small compared to the euro-area average, notably because many of the newly acceded Member States intensively use cash (cf. below). The lower availability of electronic and/or e-payment devices is a handicap as it constitutes the main alternative to cash and since such payment equipment is typically switched over very easily. While the number of payment cards (both debit and credit) per capita in the new Member States is smaller than in the euro area, it is significant in relative terms (debit cards in particular). In practice, cards are primarily used to withdraw cash from ATMs. Significant scope thus exists for expanding the domestic POS networks and hence to alleviate the pressure on the cash changeover.

Statistical evidence confirms that banknotes and coins play a dominant role as means of payment in most of the newly acceded Member States, although the total amount of cash per capita is lower than in the euro area. For example, in some of the newly acceded Member States, many workers and pensioners continue to receive their wages and pensions in cash. As explained above, the important role played by cash constitutes a disadvantage for all parties involved (banks, retailers, consumers ...) and will require intensive preparation of the cash changeover.

Finally, the conversion of automatic vending machines should not cause major problems. The overall number of machines is relatively limited for the time being. Hungary appears to be the country with most machines (22,000), compared to a total number in excess of two million for the euro area. Moreover, in contrast to the

⁴ Frontloading refers to the supply of sufficient quantities of euro banknotes and coins to banks before euro cash acquires legal tender status, i.e. before €-day. Sub-frontloading refers to a similar type of operation whereby frontloaded banks supply retailers and other businesses with sufficient quantities of euro cash so that they can immediately start operating in the new currency from day one.

situation at the time of the first changeover, euro coins are widely available and the operators will therefore not face any particular constraints as regards the testing and fine-tuning of coin validators.

4. THE STATE OF PUBLIC OPINION TOWARDS THE EURO IN THE NEWLY ACCEDED MEMBER STATES

The latest Eurobarometer survey on public opinion in the ten newly acceded Member States⁵, concerning their attitudes to and knowledge of the introduction of the euro was conducted during the first half of September 2004 by EOS Gallup, polling over 10,000 citizens.

4.1 General attitude towards the euro

The level of interest in the introduction of the euro is rather low, with only 50% of respondents declaring an interest and 48% uninterested. The overall result in the newly acceded Member States shows that slightly more citizens believe that the introduction of the euro would have positive consequences (44%) on a national level, while 41% believes it will have negative consequences. 40% expect the introduction of the euro to be positive for them personally while 45% believe that it will be negative. Citizens appear to have mixed views as to whether they are happy (42%) or not (47%) that the euro will replace their national currency.

Concerning the time frame for adopting the euro, 19% of respondents in these ten countries indicate that they would like the euro to become their currency as soon as possible, while 36% respond that it should be adopted after a certain time, and a relative majority (40%) believes that it should be adopted as late as possible. However, citizens seem well aware of the practical advantages of the introduction of the euro, with 92% and 82% respectively recognising its convenience for traveling abroad and for purchasing goods and services in the euro area, and 77% acknowledging that it eliminates the need for currency exchange inside the euro area. Moreover, a majority of respondents (54%) do not believe that the changeover will cause them any major inconvenience. As indicated earlier, a significant majority however fears possible abuses and cheating on prices during the changeover.

4.2 Citizens want to be better informed

Knowledge among the general public in the newly acceded Member States about the euro and the conditions for its adoption is still rather low. Most of those polled (57%) are unaware that the adoption of the euro is mandatory for their country, and do not know how many countries are already in the euro area.

Almost half the respondents (48%) do not consider themselves well informed about the euro, but would like to be properly informed well before the single currency is introduced in their country. 30% of respondents indicate that they would like information as soon as possible, while 24% would prefer to get it at least a few years before the introduction of the euro. As sources of information, the majority of respondents put most trust in their national central bank (63%), far ahead of any other institution (only 29% trusted their government, national or regional authorities and 22% the European institutions). Citizens in these Member States have a preference for euro information campaigns based on TV spots (78%), followed by radio

⁵ The Eurobarometer surveys are available at http://europa.eu.int/comm/public_opinion/index_en.htm.

spots (66%) and leaflets and brochures (64%). Most citizens want information campaigns to focus on the practical implications of the euro (their salary, bank account, etc.). The dual display of prices is seen as the most essential tool for preparing the population to the new scale of values.

4.3 Main lessons from the survey

The introduction of the euro in these Member States is one step in a medium- to long-term convergence process of many stages. In many countries, the exact date of adoption of the euro is not yet known, which may have had an impact on people's responses.

The socio-demographic breakdown of the results shows that men, young people and educated and urban populations are much more in favor of the euro as compared to women, the elderly, people with a lower level of education and those living in rural areas.

Overall, citizens' general attitude towards the euro seems to be mixed. This is somehow in line with the findings of the 1997 Eurobarometer, which showed a similar lack of strong feeling for the single currency in the countries that are now part of the euro area: 47% were in favour of the euro while 40% were against. In this respect, it should also be kept in mind that, as was the case for certain euro-area countries, a part of the population is emotionally attached to the national currency. The populations of the newly acceded Member States show a clear desire for more information on the euro. Even though they are in no hurry to adopt it, they would like to be prepared well in advance of the changeover. Major information campaigns will generally be needed to meet this demand.

5. CONCLUSIONS

The future enlargement of the euro area will take place over a number of years, since the future euro-area entrants are expected to join on a case by case basis. In most countries, the changeover scenario being envisaged will provide for a rapid transition from the national currency to the euro (e.g. a "big bang" scenario). At the same time, this will increase the strain on enterprises and public administrations. It also strengthens the need for careful and timely preparations by all actors involved (public administrations at all levels, banks, retailers, enterprises in general). The latest Eurobarometer poll shows that the public consider the provision of information well in advance of the changeover to be essential.

The Commission will continue to closely follow up the progress of the practical preparations for the introduction of the euro in the different countries concerned. In this respect, the Public Administrations' Network (PAN-II), which brings together the different national representatives responsible for these issues, constitutes an essential forum for exchanging views and information. In the field of information and communication, a similar group (DIR-COM) has been established and allows the different Communication Directors to meet on a regular basis.