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

Tenth Report on the practical preparations for the future enlargement of the euro area

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1. INTRODUCTION

Since the latest enlargement of the euro area to Slovakia on 1 January 2009, the group of the EU Member States using the single currency comprises 16 members. Following the Council Decision of 13 July 2010 that Estonia fulfils the necessary conditions for the adoption of the euro, it will enlarge to a 17th Member on 1 January 2011.

Estonia has less than 6 months to finalise its preparations for the changeover. This report assesses the state of play of its practical preparations for introducing the euro and evaluates the progress made in preparing the changeover related communication campaign. It also provides a short overview of the results of the latest opinion poll on the state of public opinion on the euro in eight Member States which have not yet adopted the euro (i.e. excluding Sweden but including Estonia).

The attached Commission Staff Working Document provides for details on the preparations for the introduction of the euro in other EU countries that have not yet adopted it and do not have a legal opt-out (i.e. excluding Estonia but including Sweden).

2. STATE OF PLAY OF THE PREPARATIONS FOR THE CHANGEOVER IN ESTONIA

Estonia is going to be the fifth of the group of countries which joined the EU in 2004 to adopt the single currency. At the time of joining the EU, the practical preparations for entering the euro were already under way. The first 'Euro Adoption Plan' was adopted on 1 September 2005. The changeover target date of 1 January 2007 was subsequently reconsidered but the preparations continued. The eighth version of the 'Euro Adoption Plan' introducing the target date of 1 January 2011 was adopted in April 2010.

2.1. Organisation of the changeover, adaptation of the legal system and preparations of the public sector

The practical preparations for the adoption of the euro in Estonia are coordinated by the National Expert Committee chaired by the Secretary General of the Ministry of Finance. The Committee has seven sub-committees, involving representatives of both public and private sector. Contrary to most of the current euro area Member States in the run-up to the euro, Estonia decided not to appoint a 'Ms/Mr Euro', i.e. a person who would work full time on coordinating the changeover preparations, be the main press contact point for all changeover related questions and embody the changeover process for the general public.

A comprehensive 'Act on the Introduction of the Euro' providing the basic principles for the changeover (e.g. the length of the dual circulation period, the procedures for exchanging kroons for euro and removing kroons from circulation, the rules for rounding of prices, the

principle of continuity of contracts etc.) and the list of legislation requiring adjustments with a view to introducing the euro was adopted in April 2010 together with the amendments of the Commercial Code and the State Fees Act. The Central Bank (Eesti Pank) Act was also amended and brought into conformity with the rules on the functioning of the European Central Bank and the European System of Central Banks.

As far as the basic changeover rules are concerned, the Commission urged in its 'Recommendation on measures to facilitate future changeovers to the euro'¹ that sales outlets should be obliged to give change exclusively in euro as from its introduction, unless they are for practical reasons unable to do so. This principle was adopted in all previous changeovers and its implementation was thoroughly controlled. It prevented legacy cash from being 'recycled', accelerated its withdrawal from circulation and, as a consequence, lowered the changeover costs for retailers by shortening the period where they handled two currencies at a time. In some of the current euro area Member States, giving change in legacy currency during the dual circulation period was prohibited by law. Estonia does not envisage prohibiting giving change in kroon and it only recommends, in a very soft way, that change should be given in euro. With a view to making the changeover smooth and fast, the relatively soft recommendation of the Estonian authorities on giving change in euro only should be followed-up by clear messages in the communication campaign to secure the broadest possible implementation of this principle. Its application should be monitored, especially in the areas with no bank branches where the retailers often serve as 'exchange offices'. It is in retailers own interest to be properly supplied with euro cash before €day and thus support the speedy withdrawal of kroons from circulation.

The Estonian administration uses extensively information technologies for interacting with the general public (e.g. 70-80% of citizens submit their tax declarations electronically). Making the IT systems euro-compatible is therefore one of the biggest challenges in the run up to the euro. Each Ministry has identified the necessary changes in its area of competence. The IT systems of most public institutions should be adjusted to the euro by 1 July 2010, i.e. sixth months before €day. The three institutions with the most complex information systems (i.e. the Tax and Customs Board, the Social Insurance Board and the IT Centre of the Ministry of Interior) should make their systems euro-compatible by 1 November 2010 at the latest. The progress in the preparations made by different public institutions is regularly assessed in the monthly meetings of the sub-group of the National Expert Committee responsible for technical readiness of public institutions.

The general coordination of the changeover preparations should be strengthened. It is important to ensure that all sectors are properly prepared and there are synergies between the preparations of various actors. The changeover coordinator (-s) should be available at all times around €day with a view to handling any potential problems. The recommendation of the authorities on giving change in euro only during the dual circulation period should be reinforced and its application controlled, especially in the areas without bank branches.

¹ Commission Recommendation 2008/78/EC of 10 January 2008 on measures to facilitate the future changeovers to the euro, *OJ L23 of 26 January 2008, p.30-32*

2.2. Preparations of the financial and banking sector

Estonia plans to use a big-bang changeover scenario and a dual circulation period of two weeks².

The Estonians are advanced users of electronic means of payment (i.e. some 95% of adult population have bank accounts and almost 30% of payments in retail segment are electronic) which should make the cash changeover somewhat easier and alleviate the burden put on financial institutions in the changeover period.

Since Estonia does not have its own mint, it organised a competition for the procurement of euro coins. Based on the results of the tender, the Estonian euro coins will be produced by the Mint of Finland. The design of the national sides of Estonian euro coins was selected via public competition. The winning design depicting the map of Estonia will be used for all euro coins denominations. Euro banknotes will be borrowed from the Eurosystem's stocks. For the changeover, Eesti Pank ordered 42 million euro banknotes and 194 million euro coins of various denominations.

Due to strong differences in the structure of denominations between the kroon and the euro, the Estonians will have to get used to pay more frequently with coins. More than 98% of the kroon cash in circulation is denominated in banknotes while the coins represent less than 2% of the circulating kroon cash volume. The lowest banknote denomination is 1 kroon (approximately 6 euro cents) and the smallest kroon coins have very little purchasing power and are therefore scarcely used by the Estonians. In the run up to the changeover, it is very important to explain the value and use of euro coins to citizens (i.e. according to the results of the recent Commission survey³, some 93% of Estonians would like to obtain information on the value of the euro in local currency) and try to dispel their fears of having too many euro coins in their wallets.

The frontloading of euro coins to credit institutions should start in September and the frontloading of banknotes in December 2010. The credit institutions are currently finalising their estimates of frontloading euro cash needs. According to the first rough estimates, some 240 million euro should be frontloaded (i.e. less than a half of the value of kroon in circulation) which is relatively less than in the previous changeovers. Given the relatively high probability of bad weather conditions around €day in Estonia, the frontloading volumes should be considered very carefully.

The sub-frontloading of commercial banks' major clients with coins should start in September while smaller cash users will only be supplied as of December 2010. Estonia will be the first country to use the new simplified ECB sub-frontloading guidelines⁴ based on the experience acquired in some of the previous changeovers. The retailers who sign a simple sub-frontloading contract will be delivered up to €10 000, 5 days before €day⁵.

² In the first 12 countries introducing the euro, the single currency was first introduced as electronic money while the euro cash was only introduced 3 years later. In Estonia, the euro banknotes and coins will be introduced on the same day that euro becomes the country's currency. The big-bang scenario was used in all countries which joined the euro area after 2002.

³ Flash Eurobarometer n°296

⁴ ECB Guideline (ECB/2008/4) of 19 June 2008 amending Guideline ECB/2006/9 on certain preparations for the euro cash changeover and on frontloading and sub-frontloading of euro banknotes and coins outside the euro area.

⁵ The experience highlighted the need of a simpler procedure with a view notably to convincing the small retailers to participate in sub-frontloading. A standard sub-frontloading contract imposes heavy

The major cash-in-transit company operating in Estonia will increase its transport capacity by more than one third in order to cope with large extra workload. Considering the significant volume of euro cash which is going to be on the roads around €day, it is advisable to take extra measures with a view to ensuring adequate security throughout the changeover process.

The general public will have a possibility to obtain the first Estonian euro coins by purchasing euro coin mini-kits for 200 kroon as of beginning of December. The total number of mini-kits which are going to be provided by Eesti Pank has not been decided yet. Based on the experience from the previous changeovers, it is recommended, to produce approximately one mini-kit per household. The cash-in-transit company envisages to prepare some 50 000 special coins kits⁶ for the sub-frontloading of small retailers who do not plan to sign a sub-frontloading contract with their bank. Special arrangements for the small retailers who are in difficult financial situation and might have difficulties to be sub-frontloaded could be considered.

The Estonian authorities plan to launch an information campaign for the general public with a view to collecting hoarded cash before the changeover day. It is expected to retrieve some 50% of kroon coins in circulation and 80% of banknotes. The commercial banks plan to use special machines for kroon coins deposits in their premises. The Eesti Pank and the cash-in-transit company adjust their storing, counting and packing capacities to exceptionally high amounts of cash to be handled in the changeover period.

The cash exchanges at the conversion rate and without a service fee should be available in commercial banks as from one month before and until six months after €day⁷. Thereafter, the Eesti Pank will change unlimited amounts of kroons into euro for an unlimited period of time. Virtually all 921 automatic teller machines (ATMs) in Estonia should distribute only euro banknotes as of the first hours of 1 January 2011. The adjustments of the point-of-sale (POS) terminals were already launched by the responsible commercial banks with a view to switching instantaneously on 1 January. The commercial banks currently plan loading their ATMs with mainly €10 and €50 banknotes in the first days following the changeover. Considering the need to make it easier for the retail sector to give change exclusively in euro and current practice of Estonians to withdraw mostly small denomination banknotes, avoiding temporarily the use of €50 banknotes in ATMs should be considered. Banks should also refrain from introducing large denominations in the weeks before and after the changeover.

In the Estonian banking market (dominated by three commercial banks) there are a little under 190 bank branches. The banks consider extending opening hours in the changeover period and special openings on 1 and 2 January. They also plan reinforcing the staff at the counters with the employees from the back-office. The capacity of branches for storing extraordinary large amounts of cash in the changeover period is currently being examined and the banks' staff is being trained on the security features of euro cash. The adjustments of banks' IT systems are ongoing; the final testing should take place in October-November 2010.

The preparations of the financial and banking sector for the changeover are well on the way. To make the changeover smoother, the supplies of euro cash to banks should be well spread over time. In order to prevent retailers from running out of change because

sanctions for leakage of the sub-frontloaded euro cash into circulation before €day, requires an important reinforcement of security of the companies' premises etc. It is therefore more suitable for bigger companies in need of large euro cash volumes.

⁶ The value of the retailer coin-kit will be around €200

⁷ 12 months after €day in restricted number of branches

of customers paying with high denomination banknotes, the supply of €50 banknotes to ATMs in the changeover period should be avoided. The banks should consider opening special counters for businesses in the changeover period.

2.3. Preventing abusive practices and erroneous perception of the evolution of prices by the citizens

According to the results of the latest Eurobarometer survey, the Estonians are among the most sceptical non-euro area countries' citizens as regards the impact of the changeover on prices (for details on Flash EB n°296 see part 3). Thus, the Estonian authorities face a big challenge in reassuring consumers and must take all necessary steps to prevent abusive practices in the changeover period.

According to the official government decision, the period of dual display of prices in both kroons and euro should start on 1 July 2010 and last until six months after €day. Since it is only after the adoption of the Council Decision on the abrogation of Estonia's derogation that the conversion rate becomes irrevocably fixed, the launch of dual display of prices as of the official determination of the conversion rate would be more appropriate.

As of April 2010, the Estonian Consumer Protection Board (a public body) enlarged the basket of monthly scanned prices of goods and services from 96 to 126 with a view to providing a comprehensive overview of the price evolution. In the changeover period, the Board plans to monitor the prices in some 800 points of sale. The inspectors will also control whether the changeover rules (e.g. rounding rules, rules of dual display of prices) are applied correctly. The results of these controls should be collected via special software and published in press releases and on the national euro website.

The Estonian Chamber of Commerce is preparing the Fair Pricing Agreement along the lines of the voluntary initiatives employed successfully in the previous changeovers. The subscribers of the Agreement (e.g. retailers, financial institutions, internet shops) will commit not to misuse the changeover for their own profit, respect the changeover rules and provide the necessary assistance to their clients. The Estonian authorities plan to launch the call for subscriptions at the end of August, i.e. almost two months after the start of the mandatory dual display of prices. In the previous changeovers, most mistakes in displaying the prices in two currencies and many price increases have been detected prior or just after the start of dual display. An earlier start of the Fair Pricing initiative should therefore be carefully considered.

A subscriber who breaches the rules of the Fair Pricing Agreement can be fined up to EEK 50 000 (approximately €3200). The Consumer Protection Board plans using all its 40 inspectors and at least as many volunteers for monitoring the compliance with the Agreement. In cases of a clear breach of the rules, the fine can be imposed within 48 hours. In more complicated cases, the procedure can last up to one month. In order to fight erroneous perception of the evolution of prices by the citizens, the detected irregularities should be addressed quickly. Suspicious price increases detected by the inspectors as well as those lodged by consumers on the phone line of the Consumer Protection Board should be properly investigated and the results should be published. If the price increase was deemed unjustified, the subscriber of the Agreement should lose the right to use the logo of the Fair Pricing initiative.

The measures aimed at preventing abusive practices and erroneous perceptions of the evolution of prices by the citizens should be strengthened. The corrective action against subscribers who fail to deliver on their commitments under the Fair Pricing Agreement

should be taken as quickly as possible. Their right to claim the respect of the Fair Pricing Agreement (i.e. to use the subscribers' logo) should be withdrawn immediately.

2.4. Changeover preparations in rural areas and the preparations of enterprises

Estonia has very low population density when compared to the EU average⁸. The country is composed of 226 municipalities, 33 of them being urban and 193 rural. Over two-thirds of the municipalities have a population of under 3 000. One of the major challenges of this changeover will therefore be to make it smooth in scarcely populated rural areas with limited infrastructure.

The penetration of internet and cashless banking is high (e.g. all pensions are distributed by bank transfers) which makes the distribution of information and cash changeover somewhat easier. The facilities for exchanging kroons for euro and retrieving legacy cash must nevertheless be put in place in all areas.

More than one third of commercial banks branches are located in the capital city. Therefore, in the changeover period, the Post offices which currently provide a limited scope of banking services in cooperation with one of the commercial banks should also provide for cash exchanges in the municipalities without a proper bank branch. The offering of a cash exchange service by the Post offices should be carefully planned (frontloading and sub-frontloading, opening hours extra staff, security issues.). The staff of the Eesti Post, notably employees in direct contact with clients, should be properly trained for handling two currencies at the same time and providing information to citizens. The commercial banks should also consider using mobile cash exchange offices in addition to the existing mobile ATMs.

Besides media and internet, the local authorities would often serve as the only information provider in remote areas. They should therefore be thoroughly prepared and trained. Almost 75% of municipalities have the same IT provider. The software adaptations should be well scheduled so that the sole provider has enough time to serve all clients on time. The Ministry of Finance e-mails regularly the instructions concerning the adjustments to be made to all municipalities. The Eesti Pank organises trainings on the security features of euro cash and the prevention of counterfeiting. The umbrella organisations for urban and rural municipalities are supposed to report to the Ministry of Finance on the progress of the preparations. To make sure that all local authorities are actually prepared, the progress should be monitored regularly and in a structured way. It is advisable to provide municipalities with a check list containing the list of tasks to be accomplished complemented with a timeline and ask a changeover coordinator of every municipality to report regularly on its implementation to the umbrella organisations. Regular gatherings of local changeover coordinators would provide them with a possibility to exchange experience in preparing for the introduction of the euro.

The local branches of consumer organisations, agencies and various non-governmental organisations should be actively involved in the preparations in order to increase the local ownership of the changeover.

⁸ In 2007-2008, Estonia had 30.9 inhabitants per km² compared to the EU average of 114. Source: Eurostat

Due to the past experience (i.e. the abandoning of the changeover target date in 2006) most enterprises have been postponing the preparations until gaining more certainty. The information activities (brochures, seminars) planned by the Chamber of Commerce, Traders Association, Eesti Pank and Banking Association should help them to prepare properly and on time. It should be ensured that all enterprises, including those who will not actively seek for information, will be adequately prepared.

The preparations of local authorities for the changeover need to be steered and regularly monitored to make sure that all necessary adjustments are taken care of.

The participation of Eesti Post in the cash changeover is essential and should therefore be carefully prepared. Commercial banks should envisage using more mobile devices for kroon collection and euro cash distribution.

The preparations of enterprises should start with full speed and be supported and monitored by the responsible authorities. Special attention should be paid to small and medium sized enterprises.

2.5. Communication on the euro

The updated 'Communication Strategy for the adoption of the euro in Estonia' was endorsed by the National Changeover Committee on 15 March 2010. It includes an overview of the organisation, goals, target groups, messages and channels for communicating on the euro and its introduction. The main objective is to ensure that at least 90 % of all Estonian residents are well informed about the practical aspects of the changeover. The communication plans are well structured, balanced and cover the implementation period from March 2010 until January 2011. The Commission intends, under a Partnership Agreement, to support the implementation of the communication plans both by in kind contributions and via a grant agreement for up to 50 % of the eligible costs such as salaries of communication experts, the mass media campaign, public opinion polls, seminars and trainings and information material to all households.

Although the Commission has urged the Estonian authorities to accelerate the implementation of the communication plans, the larger scale communication activities will only start after the adoption of the Council Decision on 13 July.

Timely information about the changeover, its schedule, measures aimed at tackling the fear of price increases and abusive practices of retailers in the changeover period and support measures for the preparations of enterprises are vital. Up until now, the Estonian authorities have been concentrating on reaching information multipliers via targeted presentations and on relations with press. The impact of these measures is not known. More passive information dissemination is ongoing via the national euro website.

The Commission urges the Estonian authorities to accelerate the implementation of the communication plans for the euro introduction in order to reach all Estonian residents timely with the necessary information. This will increase the awareness about and the support for the changeover to the single European currency.

3. STATE OF PUBLIC OPINION IN THE RECENTLY ACCEDED MEMBER STATES

Since 2004, the European Commission has commissioned 'Eurobarometer' surveys in the countries which joined the EU in 2004 and 2007 and have yet to adopt the euro in order to gauge citizens' attitudes towards and knowledge about the introduction of the euro. The spring 2010 'NMS-8'⁹ survey (Flash EB n°296) is the tenth of its kind. The fieldwork for the survey was carried out between 17 and 21 May 2010.

For the purposes of this report, the results of the latest Eurobarometer survey were mostly compared with the results of the previous survey conducted in the NMS (Flash EB n°280, September 2009). It should be noted that **despite the difficult current economic climate, the latest results only showed a slight deterioration in NMS-8 citizen's support for the euro introduction since September 2009**. Actually, the current levels of support are still higher than during the first two waves of this survey conducted in 2004 and 2005.

3.1. Support for the euro

Between September 2009 and May 2010, NMS-8 citizens' support for the introduction of the euro in their countries decreased only slightly. Relative majorities of respondents expected the introduction of the euro to have positive consequences for *their country* (49%, -3pp) and for *themselves* (48%, no change); negative impacts were expected by 37% (+2pp) and 39% (+1pp) of respondents, respectively. Roughly half (51%) of interviewees thought that the euro had a positive impact in current euro-area countries.

Slightly less than half (48%, -1pp) of all respondents said *they were happy that the euro would replace their national currency*, and 41% (+3pp) said they would be *unhappy* about a change to the euro. Whereas the Romanians (55%, -4pp), Hungarians (54%, no change) and Bulgarians (51%, +2pp) were the most likely to say they felt *happy about a changeover to the euro*, the **Estonian** (56%, +7pp), Latvian (56%, +6pp) and Czech (58%, +4pp) respondents were the most liable to answer that they were personally *unhappy that the euro could replace their currency*. The most significant increase in the proportion of citizens who said they were *unhappy about the euro changeover* was seen in Lithuania (+10pp, to 47%).

3.2. Speed of the introduction of the euro

A relative majority of NMS-8 citizens would like to see the euro introduced in the medium term ("after a certain time", 39%, +3 pp). About one-third (32%, -1pp) opted for *as late as possible*, while roughly a quarter (24%, -1pp) wanted the changeover to happen *as soon as possible*.

The Czech Republic and Latvia had the highest share of respondents who wanted to adopt the euro *as late as possible* (47%, no change; and 44%, +1pp, respectively). In **Estonia**, still only about a quarter of respondents (23%, no change) wanted to join *as soon as possible*, 37% (+1pp) *after a certain time* and 34% (-2pp) wanted to have the euro *as late as possible*.

⁹ The Eurobarometer surveys always provide results for the new Member States-not euro area Members of the time. The latest survey covered Poland, the Czech Republic, Hungary, Bulgaria, Romania, Latvia, Estonia and Lithuania. Cyprus, Malta, Slovenia and Slovakia are not included anymore as they have already joined the euro area. In total, about 8000 randomly selected citizens have been interviewed.

3.3. Level of information

Overall, a majority of NMS-8 citizens do *not feel well informed* about the euro (59%, no change), whereas 40% (no change) *feel well informed*. **Estonians** feel significantly better informed than in September 2009 (50% feel well informed, +6pp).

3.4. Expectations regarding the euro

As in the previous waves, an overwhelming majority of NMS-8 citizens agreed with several positive statements concerning the euro's practical effects: e.g. 90% (-2pp) agreed that having the euro *would be more convenient for those who travel to other countries that use the euro*; 86% (-1pp) agreed that the euro would make it *easier to shop in other countries using the common currency* etc.

Two-thirds of respondents, however, feared price increases after the euro introduction (66%, -1pp), while almost a quarter (23%, no change) of citizens believed in the long-term stabilising effect of the euro on prices. Nevertheless, although the previous survey wave appeared to show an increase in scepticism, this trend was not continued in 2010. In fact, compared to September 2009, a few countries showed a decrease in the proportion of citizens who feared that the euro's introduction would increase prices: the Czech Republic (from 75% to 69%; -6 pp) and Hungary (from 66% to 62%; -4 pp). The **Estonian** and Polish respondents continued to be particularly sceptical of the euro's impact on prices: more than three-quarters expected prices to increase (77%, -1pp, respectively).