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

The introduction of the euro in Estonia

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1. INTRODUCTION

The Council decided on 13 July 2010 that Estonia fulfilled the necessary conditions for the adoption of the euro[1] and that its derogation from participating in the single currency was to be abrogated with effect from 1 January 2011.

Like all Member States that have adopted the euro after the first changeover wave in 1999–2002, Estonia introduced the euro using a so-called big-bang approach, whereby the adoption of the euro and the cash changeover takes place at the same time. A two-week dual circulation period, during which both euro and kroon cash had legal tender status, allowed for the gradual phasing out of banknotes and coins in the previous national currency. The successful changeover again confirmed that a short dual circulation period is sufficient if the changeover is well prepared[2]. A large majority of Estonians (87 %) perceived the changeover as smooth and efficient[3].

This Communication covers the most important aspects of the changeover process, in particular the preparations for the cash changeover, the dual circulation period, measures taken to prevent abusive price practices and erroneous price perceptions, price trends and price perceptions and communication on the euro. Where relevant, conclusions are drawn which may be of value for future changeovers.

2. THE CHANGEOVER

2.1. Preparations for the cash changeover

The cash changeover constitutes probably the most visible element of the currency switchover since virtually all financial institutions, businesses and citizens are involved. The efficient running of this operation depends on a proper supply of euro cash to all parties involved and on banks and businesses being well prepared for a large extra workload.

To replace the Estonian kroon cash in circulation and provide for the necessary logistical stocks, the Estonian Central Bank (Eesti Pank) borrowed some 45 million euro banknotes

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1 Council Decision (2010/416/EU) of 13 July 2010 in accordance with Article 140(2) of the Treaty on the adoption by Estonia of the euro on 1 January 2011, OJ L 196, 28.7.2010, p. 24.

2 Slovakia and Slovenia also had a two-week dual circulation period, whereas in Malta and Cyprus it was one month. The first-wave Member States adopted the euro according to the 'Madrid Scenario', which involved a transitional period of three years (one year for Greece).

3 Flash Eurobarometer 309, field work carried out in January 2011, available at: http://ec.europa.eu/public_opinion/archives/flash_arch_en.htm

from the Eurosystem and ordered some 194 million pieces of coins (with the Estonian national side) from the Mint of Finland following a public tender.

Eesti Pank started the **frontloading** (i.e. the supply of euro cash to credit institutions in advance of the changeover) of euro coins in mid-September and of euro banknotes in mid-November. All frontloading transports, including coin transports and the supply of ATMs, were escorted by police, which ensured a high level of security. A total value of € 187 million in banknotes (10.5 million pieces) and of € 28 million in coins (85 million pieces) was supplied to the 10 commercial banks that had signed front-loading contracts with Eesti Pank, corresponding to around 23 % of the volume of banknotes borrowed from the Eurosystem and to 44 % of the coins ordered. The total value of euro banknotes frontloaded until the end of the year amounted to 34 % of the total value of kroon banknotes in circulation at the end of October 2010, whereas the total value of frontloaded coins amounted to almost 3 times the value of kroon coins in circulation. The high share of frontloaded coins reflects the change in the banknote/coin boundary following the introduction of the euro (kroon coins were not much used compared to euro coins).

The sub-frontloading (i.e. the supply of euro cash by credit institutions to businesses and citizens in advance of the changeover) of euro coins started on 15 September and of euro banknotes on 1 December. Some 5 300 companies signed a sub-frontloading contract with a bank and were supplied with some 9 % of the value (18 % of the volume) of frontloaded banknotes and 52 % of the value (51 % of the volume) of frontloaded coins. In total, 14.4 % of the value of frontloaded cash was distributed to businesses before €-day, which is a high figure compared with most of the post-2002 changeovers. In Slovenia, the sub-frontloading represented only 2.4 % of the value of frontloaded cash while in both Cyprus and Malta it was only around 1 %. By contrast, in Slovakia a total of 27.8 % of front-loaded cash was sub-frontloaded.

The sub-frontloading also included 86 000 **retailer kits**[4] with euro coins that were prepared by the main CIT-company and distributed to professional clients, either directly or via the banks. Compared to the post-2002 changeovers it is the highest number sold so far in absolute numbers and the second highest relative to population. The provision of a sufficient number of retailer kits is important in order to help retailers provide change in euro only during the changeover.

The comparatively high level of sub-frontloading was attained in spite of the fact that Estonian banks did not use the new simplified ECB rules for sub-frontloading adopted in June 2008[5]. According to the Eesti Pank and the commercial banks, this was due to several factors: a) For reasons related to Estonian law, the banks did not consider money blocked on the customer's account to be a sufficiently safe collateral (in case of insolvency); b) Banks considered it easier to use the same rules for all companies, independently of size, since it was possible to sub-frontload also small companies under the standard rules and it was also considered more flexible since the simplified procedure can only be used during the last five calendar days before the changeover; c) Finally, it was considered easier in terms of information and communication to have only one type of agreement.

[4] There were two types, one with a value of 111 € (8 coin rolls) and one of 198 € (15 coin rolls).

[5] 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.

Commercial banks furthermore provided for exchange of kroons to euro for private individuals at the conversion rate and without any service fee, nor any limit[6] on the amount to exchange, at all branches offering cash services as from 1 December 2010. This service will be continued until the end of June 2011 and thereafter within a more limited branch network until the end of December 2011.

The Estonian authorities initially ordered 600 000 **mini-kits** with euro coins (42 coins with a nominal value of 12.79 euro)[7], i.e. more or less one per household, that were on sale in banks and post offices as from 1 December. Mini-kits are important for several reasons: a) They help citizens get acquainted with their new currency; b) they are an important communication tool, and: c) they reduce the need for retailers to give change in the first days after the changeover. The mini-kits proved to be a big success and 247 000 kits were sold in just the first three days. An additional 100 000 kits were subsequently ordered, but with hindsight this seems not to have been needed since by 31 December 510 000 kits had been sold, i.e. less than the number originally ordered. This confirms the standard recommendation that, as a rule of thumb, approximately one mini-kit per household should be ordered to satisfy demand.

According to a Commission survey carried out two days before the changeover[8], a large proportion of Estonians already possessed euro cash before the changeover: 50 % had euro banknotes (62 % from a trip abroad, 35% from an exchange in a bank in Estonia) and 62 % had € coins (63% from a trip abroad and 38 % from a mini-kit).

The frontloading of banks and sub-frontloading of businesses and citizens in Estonia was well prepared and organised.

Retailers in Estonia were well supplied with euro cash in advance of the changeover day. This included the delivery of a large number of retailer-kits with euro coins to professional clients, which is a good practice in order to help retailers to provide change in euro only during the cash changeover.

Citizens were also well supplied with euro cash in advance of the changeover. The free-of-charge exchange in commercial banks in advance of the changeover was an important initiative in this regard and a good practice. A sufficiently large number of euro coin mini-kits were furthermore produced and distributed via banks and post offices, which is important in order for citizens to get acquainted with their new currency in advance of the changeover, as a communication tool on the changeover and to reduce the need for retailers to give change in the first days after the changeover.

2.2. The dual circulation period

Estonia opted for a dual circulation period of two weeks (1–14 January).

The conversion of the 867 ATMs (cash dispensers) in the country went smoothly and virtually all of them were distributing euro banknotes as from the first hour of 1 January. They distributed mainly lower denomination banknotes (5€, 10€ and 20€ banknotes), apart from ATMs with a high past turnover record where 50€ banknotes were also used. The generalised

[6] For practical reasons, advance notice could be needed for large amounts of cash to be exchanged.
[7] The mini-kits were sold at a slight discount: 200 kroons instead of 200.12 kroons.
[8] Flash Eurobarometer 308, 30 December 2010, available at: http://ec.europa.eu/public_opinion/archives/flash_arch_en.htm

use of lower denomination banknotes in ATMs was important in order to avoid that retailers run out of change. POS (point-of-sales) terminals for card payments in shops were successfully converted to euro in time for the opening of shops on 1 January and so were IT-systems in general. Interbank payments in euro were running smoothly as from the first banking day of the year.

Most bank branches were open for cash services on Saturday 1 and Sunday 2 January and post offices were open seven days a week during the dual circulation period. The possibility to exchange kroon cash for euro without fees at over 180 post offices around the country between 1 and 15 of January was an important measure that facilitated access to cash exchange for the population, in particular in remote and rural areas.

Cash transports ran according to plan in close co-operation with the police, which ensured a high security.

The number of customers coming to the banks was moderate during the weekend of 1–2 January, but as from Monday 3 January and throughout the dual circulation period the number of over-the-counter transactions were around 3-5 times higher than normal with the highest figures recorded for the first two weekdays of the New Year. The number of over-the-counter transactions in the post offices likewise peaked in the first two weekdays of 3–4 January.

Due to careful preparations, banks and post offices coped well with the extra work load during the dual circulation period, although some queues unavoidably built up during the first weekdays of the New Year. According to a Commission survey carried out between 16 and 20 January[9], 95 % of those polled did not experience any problem when exchanging kroon cash or withdrawing euro cash with banks in the first week of January. This is a very good result and compares favourably with most of the recent changeovers[10].

Graph 1 below shows the evolution of cash payments exclusively in euro during the dual circulation period in Estonia compared also with Slovakia and Slovenia.

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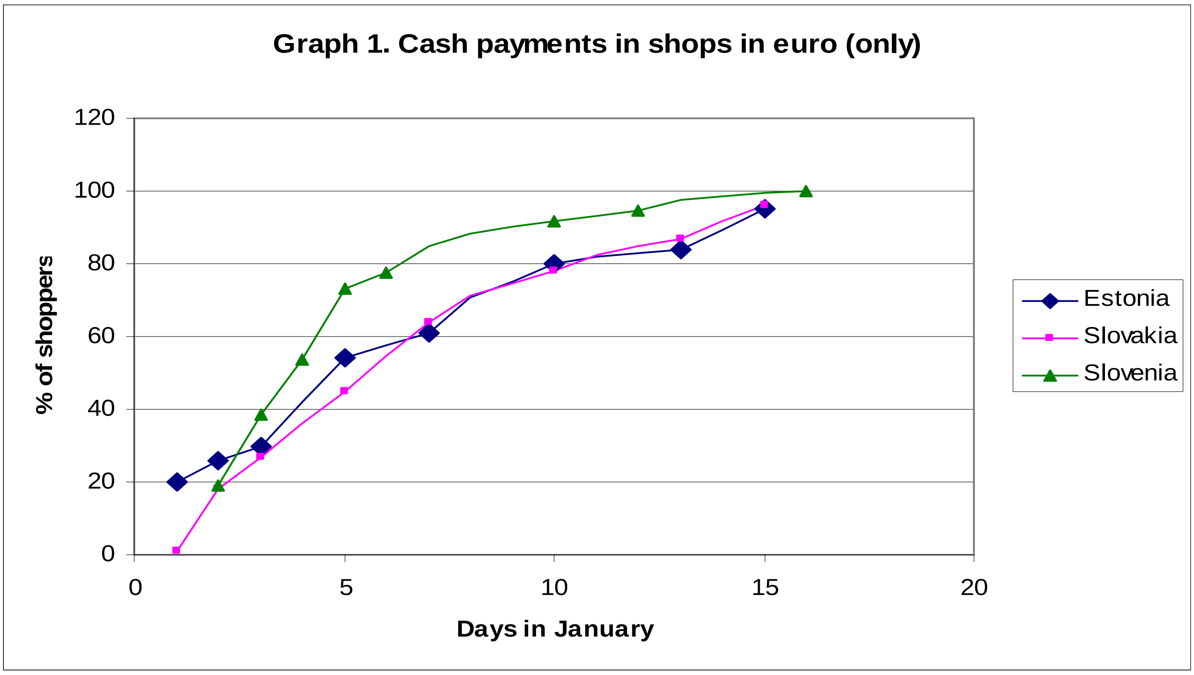
9 Flash Eurobarometer 309, available at: http://ec.europa.eu/public_opinion/archives/flash_arch_en.htm

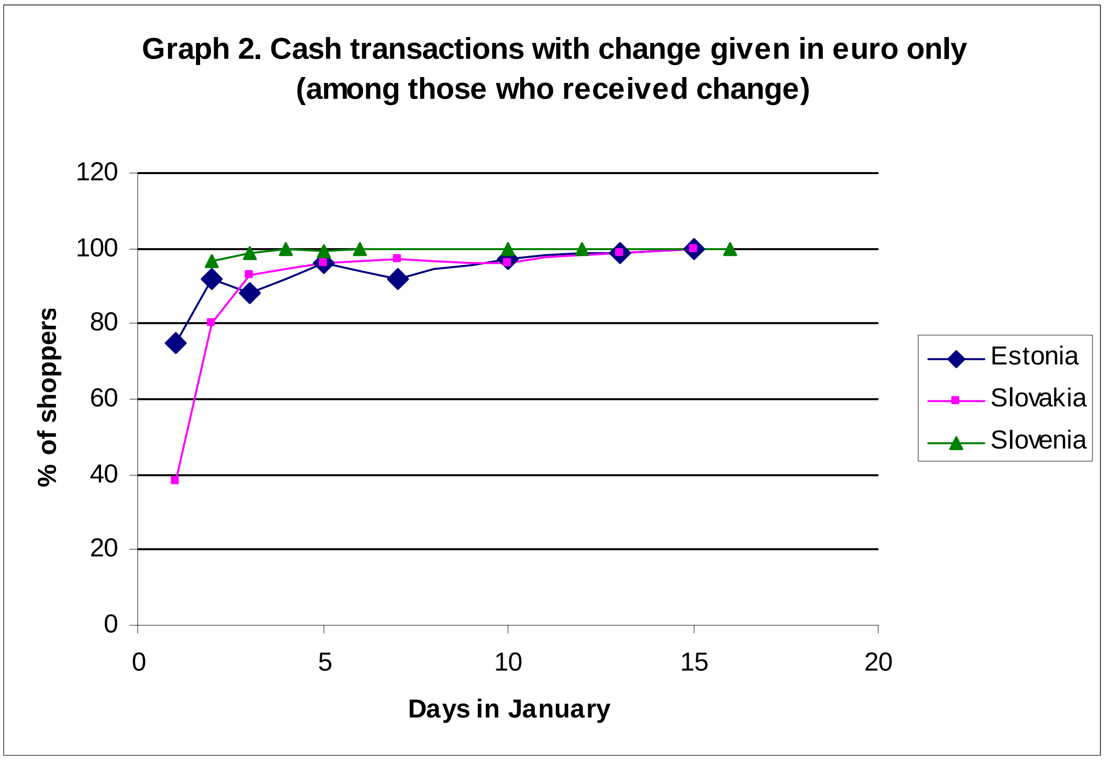
10 The corresponding figure was 90 % in Slovakia, 88 % in Cyprus, 85 % in Malta and 96 % in Slovenia.



A comparatively large share of the public (20 %) that paid in cash[11], paid with euro cash only already on 1 January (when big supermarket chains were open). On 5 January, a majority (54 %) paid in euro cash only and the share of euro cash only payments thereafter progressed continuously until the end of the dual circulation period. Apart from a quicker start, the evolution of euro cash only payments followed more or less the same path as in the previous changeover in Slovakia, but was slower than in Slovenia (as well as in Malta and Cyprus in spite of their one-month dual circulation period).

The retail sector also managed well with the challenges of the changeover process and the handling of two currencies at the same time. Retailers were well supplied with euro cash and no major problem with queues was reported. As can be seen from Graph 2 below, already on 1 January, in 75 % of all cash transactions retailers gave change only in euro. This quickly increased to 92 % on Sunday 2 January (when many big shops were open). On Monday 3 January this share decreased somewhat to 88 %, but quickly picked up on the following day. The reason for this temporary decrease is not known, but could be due to small and/or remotely located retailers that opened after the week-end and which were less well supplied with euro cash.

[11] Around ¾ of customers paid with cash and ¼ with cards according to the survey referred to above.



The Commission survey carried out just after the end of the dual circulation period shows that a very large majority of Estonians (87 %) perceived the changeover as smooth and efficient.

2.3. Withdrawal of the legacy currency

A significant proportion of the Estonian kroon cash in circulation was retrieved from circulation before the changeover. By end-December 2010 the value of kroons in circulation had decreased by around 40 % compared to December 2009 (from 9.7 billion to 5.8 billion EEK). A further 4.1 billion kroons was withdrawn in January 2011, bringing the value of outstanding legacy currency to 1.7 billion EEK (around 340 million pieces of coins and 35 million pieces of banknotes) or 18 % of the value in circulation in December 2009. Legacy banknotes are destroyed (shredded) and legacy coins demonetised and sold as scrap metal.

The changeover in Estonia was well prepared and smoothly implemented.

ATMs and POS-terminals were converted in time and banks and post offices coped well with the extra workload during the dual circulation period. Retailers managed well with the challenges of the changeover process and the handling of two currencies at the same time. They were well supplied with euro cash and a large majority gave change in euro only already as from the first changeover day.

The importance of retailers giving change in euro only in order to get the legacy currency out of circulation as quickly as possible should be recalled for future changeovers.

The Estonian changeover confirms the experience from the previous post-2002 changeovers that a two-week dual circulation period is sufficient, if well prepared.

3. PREVENTING ABUSIVE PRICE PRACTICES AND ERRONEOUS PRICE PERCEPTIONS

The Estonian Consumer Protection Board (CPB) monitored the correct application of dual price displays, rounding rules and the Fair Pricing Agreement.

The compulsory **dual display of prices** in Estonian kroons and euro started on 1 July 2010 and will last until 30 June 2011. During the six months of 2010, the 25 inspectors of the CPB controlled around 4 250 businesses and imposed a fine in 288 cases (of a total value of close to €12 000). The most frequent shortcoming detected was a mathematically incorrect rounding, although this most often concerned only one euro cent. The second most frequent shortcoming was the partial absence of a price in euro, followed by the use of an incorrect exchange rate and a fully absent price in euro. The results of the controls improved progressively from a share of 47 % of controlled enterprises that showed some shortcomings in July to 11 % in December.

The CPB furthermore concluded contracts with NGOs (notably pensioners) and with the local government in Tallinn to monitor the implementation of the dual price displays. The NGOs controlled altogether 980 businesses and identified shortcomings in 283 cases in September and December 2010.

The names of enterprises that do not correctly implement the dual display of prices are published weekly at the website of the CPB.

Estonians generally considered the dual price displays to be a useful tool to facilitate price comparisons and to get used to thinking in their new currency. According to a Commission survey carried out in January[12] almost 9 in 10 (88 %) considered the dual price displays to be very or rather useful. Over 80 % furthermore considered that they were always (34 %) or mostly (49 %) implemented correctly, which is in line with the results from the recent changeovers.

When asked about price conversions, 59 % of Estonians had the impression that the price conversion to the euro was sometimes (38 %), often (13 %) or very often (8 %) not fair. This result is somewhere in between the results of the previous changeovers, with more critical Slovenes and Cypriots and less critical Maltese (while Slovaks tended to be more divided than Estonians - either more critical or more positive).

The CPB also monitors the implementation of the **Fair Pricing Agreement** which was launched on 28 August and is lead by the Estonian Chamber of Commerce and Industry. It follows the lines of the voluntary initiatives employed successfully in previous changeovers. The subscribers to the Agreement (e.g. retailers, financial institutions, local governments, internet shops etc) commit not to increase their prices without justification during the changeover to the euro and to respect the changeover rules. Those that have joined the Agreement have the right to use a sticker with a dedicated logo.

By the end of December, 526 entities including 16 local governments had joined the contract and the logo was used in more than 2 800 sales or activity points of the subscribers as well as in their advertising. According to the Estonian Chamber of Commerce it is the largest voluntary agreement in Estonia so far in terms of legal entities subscribed. The fair pricing agreement is a very important initiative in order to prevent potential price abuses and dispel

[12] Flash Eurobarometer 309.

erroneous price perceptions. Compared to the number of registered sales points in Estonia (approx. 28 000) and to the experience of the recent changeovers there seems however to have been scope to further expand the coverage of the scheme[13].

By the end of January, the CPB had received 10 complaints about possible infringements by companies that were actually subscribers to the Agreement. In 4 cases no infringements were found, whereas 6 cases are currently ongoing.

Estonia has implemented dual price displays and a Fair Pricing Agreement in line with the recommendations of the Commission[14]. The authorities should continue to make sure that all complaints from citizens are duly investigated and continue to monitor the correct implementation of the Fair Pricing Agreement as long as it is in force.

4. PRICE TRENDS AND PRICE PERCEPTIONS

4.1. Price trends

The euro changeover was preceded by a period of rising inflation in Estonia. Notably, energy and food prices increased strongly in 2010 and differences to neighbouring countries or the euro area aggregate can only partly be explained by tax changes and the strong economic recovery.

Turning to price developments after the euro changeover, preliminary indications suggest that the changeover had a rather moderate impact on consumer prices in January. According to Statistics Estonia, the domestic consumer price index remained unchanged in January from December 2010. The prices of electricity, heat energy, fuels and of clothing and footwear had the most important moderating effect, due partly to seasonal factors. However, according to the Bank of Estonia, the price of leisure and sports activities, eating out and household services grew notably more than in January in earlier years. Further analysis of the changeover related price developments will become possible after the release of HICP data for the first months of 2011.

4.2. Price perceptions

According to a recent Commission survey (January 2011)[15], the majority of Estonians (55 %) thought that the euro would increase inflation in their country (compared to 66% of Cypriots, 52 % of Slovenes, 37 % of Maltese and 19 % of Slovaks just after their respective changeovers) while only 21 % believed that joining the euro area would help Estonia to maintain price stability.

The euro changeover took place at a time when perceived inflation was rising steadily from its historical lows reached in 2009. Inflation perceptions usually move closely together with HICP inflation in Estonia, but perceptions appear to have risen faster than actual inflation in the second half of 2010 (see graph below). January data from the Joint Consumer Survey

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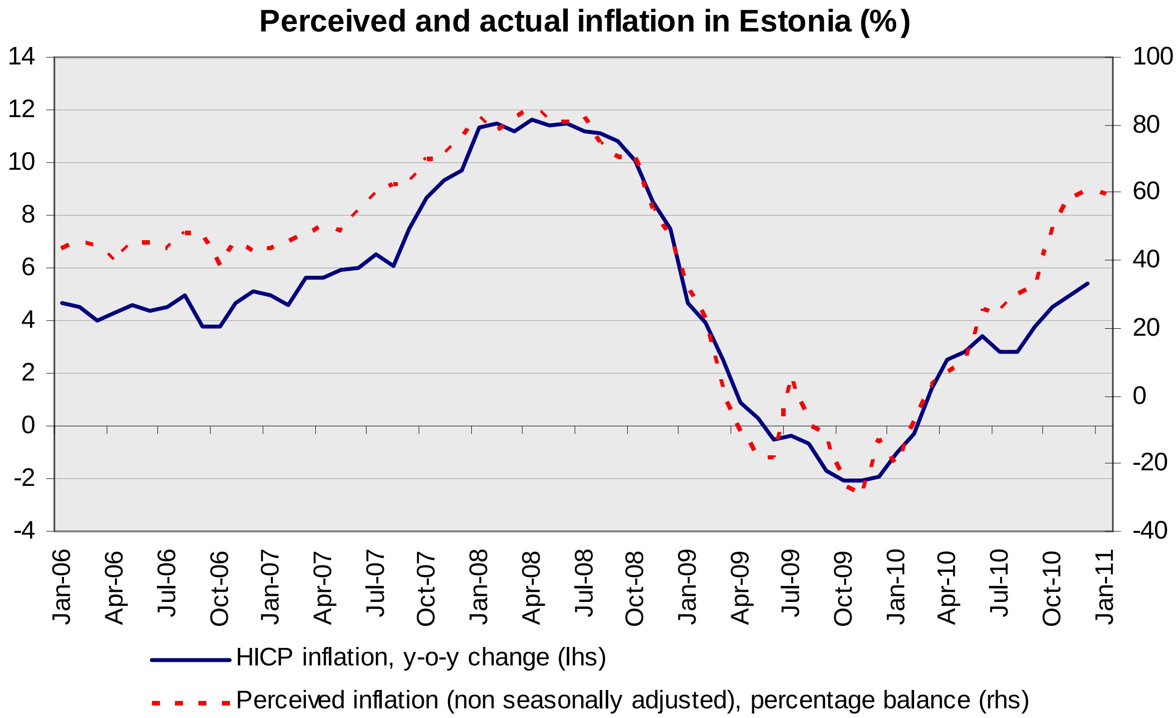
13 Some 7 600 businesses were covered by the corresponding scheme in Cyprus, some 7 900 in Malta and some 20 000 sales points were covered in Slovakia.

14 Commission Recommendation on measures to facilitate future changeovers to the euro, OJ L 23, 26 January 2008, p. 30. Mandatory price displays should however start only as from the setting of the irrevocable conversion rate by the Council and not before.

15 Flash Eurobarometer survey 309.

show that perceived inflation remained on an upward trend and in seasonally adjusted terms it reached 63.6 pp in January, up from 59.6 pp in December (the non-seasonally-adjusted measure decreased from 61.1 to 59.6). In the context of rising HICP inflation, it is difficult to identify the specific impact of the euro changeover on inflation perceptions.



5. COMMUNICATION ON THE EURO

The final version of the 'Communication Strategy for adoption of the euro in Estonia', endorsed by the National Changeover Committee on 15 March 2010, laid down the guidelines for the euro introduction information campaign. Quantitatively it aimed at ensuring that 90 % of all residents were well informed about all practical aspects of the changeover to the euro and that 65 % supported its introduction.

The Estonian authorities scheduled the start of the vast majority of the large-scale communication actions after the formal ECOFIN decision on 13th July 2010. Exceptions were a euro website and a certain number of presentations and press contacts. The activities gathered speed after the summer, when the Estonian authorities swiftly implemented the communication plans, involving a balanced mix of direct contacts with the residents (for example direct mailings, seminars, exhibitions) and mass media tools (print, radio and television spots) and emphasising the practical aspects of the changeover at hand. The Estonian authorities followed the Commission's advice to pay extra attention to vulnerable groups, minorities and enterprises. The numerical target for the level of changeover-related information was reached well in advance of the actual changeover date. The numerical target for the support of the euro changeover in Estonia was reached in January 2011. The Estonian authorities have closely cooperated with the EU institutions. The Estonian authorities had signed a Partnership Agreement with the European Commission in 2005, in order to strengthen and streamline the cooperation. It was prolonged several times and will finally expire at the end of 2011.

The Commission has contributed with its expertise in the field since the initial intentions to introduce the euro. Via a grant agreement, signed between the Commission and the Ministry of Finance of Estonia on 13 July 2010, the European Commission supported up to 50 % of the eligible costs of salaries of communication experts, mass media campaigns, national surveys on public opinion, seminars and trainings and household mailings. The Commission also financed a euro travelling exhibition in four major Estonian cities (Tallinn, Narva, Tartu and Rakvere). The exhibition attracted over 65 000 visitors in the four locations. The Commission has also organised seminars for journalists and printed publications.

The European Central Bank supported the national information campaign by delivering publications, organising exhibitions and other public relation events and by providing significant help for the mass media campaign.

The information campaign in Estonia contributed to ensuring a smooth changeover to the euro. Despite a somewhat belated start, the campaign addressed all major practical aspects of the euro introduction in a timely way. Special attention was given to enterprises, minorities and vulnerable groups. The Estonian authorities should consider continuing to monitor the perceptions on euro-related aspects and react with information activities if necessary.