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EUROPEAN COMMISSION

Brussels, 12.11.2010
COM(2010) 667 final

**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**

Eleventh Report on the practical preparations for the enlargement of the euro area

{SEC(2010) 1373}

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1. INTRODUCTION

The Council decided on 13 July 2010 that Estonia fulfils the necessary conditions for the adoption of the euro¹. Estonia will thus join the euro area as from 1 January 2011, bringing the total number of Member States that have adopted the euro to seventeen. The conversion rate between the Estonian kroon and the euro has been irrevocably fixed at 15.6466 Estonian kroons for one euro².

The practical preparations for the changeover have now entered the final phase. This report assesses the state of play of Estonia's practical preparations for introducing the euro and addresses in particular the preparations for the introduction of euro cash into the economy, the measures put in place for protecting consumers in the changeover period, such as the fair pricing agreement, and the 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 the eight Central and Eastern European Member States that have not yet adopted the euro (including Estonia).

The attached Commission Staff Working Document provides for details on the preparations for the introduction of the euro in the remaining EU Member States that have not yet adopted the single currency and do not have a legal opt-out.

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

Estonia adopted the ninth version of its 'Euro Adoption Plan' on 14 October 2010. Compared to the previous version of April 2010, it has notably been updated to include:

- The participation of some 180 offices of the Estonian Post in the supply to the public of euro cash and withdrawal of Estonian kroon cash.
- The supply of 600 000 starter-kits of euro coins to the public as from 1 December 2010.
- The use of € 20 banknotes in automatic teller machines (ATMs) during the dual circulation period. The purpose is to reduce the number of € 50 banknotes dispensed by ATMs, thereby facilitating for retailers to give change exclusively in euro.
- A more detailed plan and description of euro cash training for cash handlers.

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 Council Regulation (EU) No 671/2010 of 13 July 2010 amending Regulation (EC) No 2866/98 as regards the conversion rate to the euro for Estonia, OJ L 196, 28.7.2010, p. 4.

More detailed comments are included under the headings below, but in general these measures are very welcome and will contribute to a smoother and more successful changeover.

2.1. Preparations for the cash changeover

Euro cash will enter into circulation via three main channels: commercial banks, ATMs and retailers.

Estonia will borrow 44.89 million **euro banknotes** from the Eurosystem, which are supplied from the Central Bank of Finland, and has ordered 194 million pieces of **euro coins** in order to replace the Estonian kroon cash in circulation and provide for the necessary logistical stocks. The euro coins bear the Estonian national side and are minted by the Mint of Finland. The production of the coins has begun and some 40 % of the coins had been minted by mid-September. The remaining part will be minted and delivered gradually until the end of March 2011.

Euro banknotes and coins of a total value of 235 million euro, corresponding to some 40 % of Estonian kroon cash in circulation, will be frontloaded and sub-frontloaded to banks and their customers ahead of €-day. The **frontloading** of euro coins started in mid-September, whereas the frontloading of euro banknotes is planned to start on 15 November. By mid-September, the Estonian Central Bank (Eesti Pank) had signed frontloading agreements with 10 banks. The framework for the **sub-frontloading** of commercial banks' customers with euro coins is in place, but no movements had yet been reported by the banks at the beginning of October. The sub-frontloading of euro banknotes will start on 1 December. Estonia will moreover be the first Member State to use the new simplified ECB sub-frontloading guidelines³ based on the experience acquired in previous changeovers. The retailers who sign a simplified sub-frontloading contract will be delivered up to €10 000, up to 5 calendar days before €-day⁴.

All professional **euro cash transports** will be escorted by police, including coin transports and the supply of ATMs, which will ensure a high security. The main cash-in-transit company has foreseen to rent additional vehicles from neighbouring Member States, if this should prove necessary in order to deal with the increased demand for cash transports around the changeover, and has invested in new equipment for sorting and fitness testing of euro cash.

The Estonian law enforcement authorities have intensified preventive action against euro counterfeiting, based on the Commission's Pericles programme.

Estonia has ordered 600 000 **mini-kits** with euro coins, i.e. more or less one per household, that will be on sale in banks and post offices as from 1 December. The sales price for a mini-kit is 200 kroons (the nominal value is 200.12 kroons or 12.79 euro) and it contains 42 coins. In order to avoid possible hoarding, there will be a limit of 5 mini-kits per purchase. Additional quantities (on top of the 600 000 kits) will furthermore be sold as from 1 January

³ 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, OJ L 176, 4.7.2008, p. 16.

⁴ 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 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.

2011 to satisfy numismatic demand for the new euro coins from collectors. The mini-kits are very helpful in getting people acquainted with their new coins before €-day and will make it easier for retailers to give change exclusively in euro. The sales of mini-kits should therefore be carefully monitored by the Eesti Pank to make sure that sufficient quantities are available in all parts of the country. It is moreover a good practice to produce extra quantities of mini-kits to satisfy collector demand, in order to avoid that collectors to some extent crowd out the regular coin users.

The main cash-in-transit company has started to produce **retailer-kits** with euro coins for distribution to professional clients either directly or via the banks. There will be two types, one with a value of 111 € (8 coin rolls) and one of 198 € (15 coin rolls). In September it had received orders for 40 000 such kits and it plans to produce more than twice that number. This is a large volume compared to previous changeovers, which is commendable since it is important to avoid that retailers run out of euro coins during the changeover, also taking into account that cash deliveries to shops may take place on a less frequent basis during the first busy days of the changeover.

Commercial banks will provide for exchange of kroons to euro at the conversion rate without any service fee, nor any limit⁵ on the amount to exchange, at all branches offering cash services from at least 1 December 2010 until the end of June 2011. This service will continue to be provided within a more limited branch network until the end of December 2011. To facilitate the changeover, the commercial banks will have extended opening hours during the changeover, starting already in December, and additional staff is foreseen. Most bank branches will be open on 1 January as from 12.00. At least one big bank has indicated that its branches will give retailers priority over other customers if there are queues (by means of separate queuing tickets). This is a good practice that all banks should be encouraged to follow in order to make it easier for retailers to give change in euro only.

Branches will also generally avoid distributing the higher denominations (500- and 200-euro) around the changeover in order to reduce the risk that retailers run out of change in euro.

By mid-September, the programming of the training of bank staff was prepared and the training about to start. The preparation of the changeover of bank card terminals to the euro is well advanced and is not expected to create any particular problems. The switch-over of these terminals to the euro will take place at 0:00 on 1 January 2011. To avoid possible confusion, the currency will be indicated on the displays of the terminals. The preparation of IT-systems is well advanced and the final testing is scheduled for October/November.

In order to improve the access to cash exchange, in particular in rural areas, the Estonian Post (Eesti Post) will also participate in the cash exchange. Eesti Post will use its Postipank platform (a joint service by Eesti Post and the commercial bank SEB) to exchange kroon cash for euro without fees at over 180 post offices around the country between 1 and 15 of January 2011. Offices will be open seven days a week during this period, including on the public holidays of 1 and 2 January and on Sunday 9 January. The cash exchange service is open to everybody, including those who do not possess an SEB-account. If necessary, Eesti Post may set a maximum daily limit for cash exchange of €1000/client. Finally, the Eesti Post is preparing a detailed communication plan about the cash exchange service it will provide during the dual circulation period.

⁵ For practical reasons, advance notice may however need to be given for large amounts of cash to be exchanged. Between 1 and 31 December 2010, the exchange is for private individuals only.

ATMs will be loaded with euro cash mainly on 30 and 31 December, which means that many will be closed during these days (in order not to distribute euro cash before 1 January). ATMs with a high turnover will be the last ones to be loaded with euro cash. As from 0:00 or 00:15 on 1 January, depending on the bank, some 90 % of ATMs will dispense only euro banknotes, whereas around 10 % of the machines can operate in both currencies and will therefore be open without interruption. ATMs will mainly be loaded with the lower 20-, 10- and 5-euro denominations, whereas the 50-euro denomination is to be used only for ATMs with a high past turnover record. The use of mainly lower denomination banknotes in ATMs is a good practice, which will make it easier for retailers to follow the recommendation to give change exclusively in euro.

The financial and banking sector is well advanced with the preparations for the cash changeover. It is very positive that Eesti Post will now take part in the supply of euro cash to the public and the withdrawal of Estonian kroons, which means that there will be bank or post office branches providing cash exchange services in all counties.

It is also positive that ATMs will now generally be loaded only with lower denomination banknotes, avoiding 50 € banknotes (except for ATMs with a high turnover) since this will avoid that retailers run out of change in euro because customers are paying with high denomination banknotes.

Finally, the practice to give retailers priority at bank branches should be encouraged in order to make it easier for them to give change only in euro.

The banks and the Post should prepare themselves carefully for a considerable extra work load and much larger number of customers in the first days of January.

2.2. Preparations of public administrations, changeover preparations in rural areas and vulnerable groups

The conversion of IT-systems in the public sector is proceeding according to plan. The IT-systems of most public institutions have been adapted to the euro and 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) report that they are on track to make their systems euro-compatible by 1 November 2010 at the latest.

The Ministry of Finance has set up a contact list with representatives of the local municipalities to whom it is regularly e-mailing information. A number of meetings with representatives of local authorities have been held and regular information letters have been shared via the special local government contacts network covering the legal framework, the changeover of IT-systems and including also a checklist with the tasks to be accomplished ahead of €-day.

A specific problem may arise in public transport, which may encounter problems to give change on medium- and high-denomination euro banknotes. Although most public transportation tickets are paid by electronic means (for instance with mobile phones), some are still paid in cash. The authorities are envisaging to clearly advertise on buses, bus-stops etc. that customers are invited to pay with the exact amount. They also intend to distribute euro calculators to bus companies to help drivers who are selling tickets for cash (mostly rural or inter-city routes).

The conversion of public parking meters also represents a specific challenge, since they can normally only handle one currency at the time. All parking meters should be converted at day 4 or 5 after €-day, when a strong majority of all payments will normally already be made in euro. After that, unconverted parking meters should normally imply free parking in order not to encourage the use of the old national currency during the dual circulation period.

Vending machines are not much used in Estonia and their changeover will normally be less of a challenge, especially since they usually accept a variety of means of payment (bank card, payment by mobile phone etc.).

The participation of the Eesti Post in the cash exchange operations (see also Section 2.1 above) is to be strongly welcomed. This will greatly facilitate the cash changeover for people in rural areas where bank branches are scarce. The training of the staff of the Post (handling of two currencies at the same time, security features of euro cash, providing information to the citizens etc.) has started.

Pension payments (29 000 pensioners still receive their pension in cash each month) are made between the 1st and 18th of each month, with the peak of payments occurring around the 5th/6th of each month. This means that there will not be a huge injection of pension payments in Estonian cash just before the changeover.

Elderly people that have difficulties leaving their home represent a particular challenge for the changeover since they may need help in exchanging their Estonian cash. Social workers should furthermore receive training so that they are able to answer basic changeover-related questions (conversion rules, dual circulation, dual displays, security features of euro cash etc.).

Special attention should be paid to provide information on the changeover to elderly people with difficulties leaving their home. They may also need help with the exchange of their Estonian cash.

Social workers should be trained in order to be able to answer basic changeover-related questions.

2.3. Preparation of enterprises

Retailers will have an extra need for cash during the dual circulation period for two main reasons; customers tend to use them as 'mini-banks' to exchange national cash for euro (especially if there are no bank branches nearby) and cash-in-transit services will be less frequent due to the increased need of cash transports during the changeover. Increased security measures are therefore foreseen by at least the big retailers, such as increased use of security guards, monitoring cameras etc.

The big retailers had estimated their cash needs and were about to conclude agreements with the banks at the end of September 2010. They will be open seven days a week during the changeover period and plan to hire more staff and open extra tills during this period. The individual IT-systems have been checked and are able to handle payments both in euro and Estonian kroons, including mixed payments. It is furthermore necessary to verify that the individual systems match with each other. Counterfeit banknote detectors will furthermore be installed in all sales points of the big retailer chains.

Training of the staff is foreseen to take place during the autumn, which will include practical training of cashiers handling the two currencies in the presence of a reviewer. Eesti Pank will provide courses for the trainers.

The retailers should be giving change exclusively in euro as of €-day. Appropriate measures should therefore be put in place with a view to reducing the pressure on the cashiers and limiting waiting times at the tills, such as making cashiers acquainted with the new currency in advance of the changeover, foresee separate boxes for kroon cash in order to directly and easily "take it out of circulation", open information desks in large retail shops to answer customers' questions, hiring temporary staff for packing products into bags in the supermarkets etc. The retailers should moreover foresee sufficient storage capacities for retrieved kroon cash and plan cash transports to banks. Finally, the much higher value of euro coins compared to kroon coins will be a new feature for the Estonian public (the highest value kroon coin in circulation is worth just 32 euro cents) and special attention should be paid to potential issues that may arise in this respect (e.g. appropriate design of cash boxes in the tills, training of staff in handling coins etc.).

The progress of preparations of SMEs should be regularly monitored.
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2.4. Preventing abusive practices and erroneous perception of the evolution of prices by the citizens

The public opinion in Estonia is concerned about the possible impact of the changeover to the euro on prices (see results of the latest Eurobarometer in Section 3 below). It is thus particularly important for the Estonian authorities to take all necessary steps both to prevent abusive practices and dispel erroneous perceptions. It is particularly important to monitor the price developments of frequently purchased goods and services, such as those provided by restaurants, cafés and hair-dressers etc., since these contribute disproportionately to the perceived evolution of prices.

The compulsory **dual display of prices** in Estonian kroons and euro started on 1 July 2010 and will last until 30 June 2011. Its implementation is supervised by the Consumer Protection Board of Estonia (CPB) that will monitor the dual displays in over 2 200 points of sale all over Estonia. In September, the 25 inspectors of the CPB checked some 1160 sales points. 265 enterprises that had previously not correctly implemented the dual price displays were revisited to verify whether shortcomings had been corrected. The CPB imposed fines in 108 cases during the controls of September⁶. The names of enterprises that do not correctly implement the dual display of prices are published weekly at the website of the CPB.

While in July around half of the enterprises did not show correctly the dual display of prices, this figure had slightly decreased to around 40 % in August, dropped to below 30 % in September and to slightly below 20 % by mid-October. During the first two months, the main error was the failure to display a price in euro. The steady improvement between August and October is due to a larger number of companies displaying both currencies, as well as to fewer companies using an incorrect conversion rate, whereas the number of cases of incorrect

⁶ The average fine amounted to around 50 euro, while the maximum fine amounts to some 1 900 euro (30 000 kroons). The inspector can decide on the penalty (warning/fine) on the spot, but not on the amount of the fine.

rounding persists. The CPB is also carrying out joint actions with NGOs (notably pensioners) in order to monitor the dual displays. This is a good practice, which could be used also to promote and increase the uptake of the Fair Pricing Agreement (see below). Although the number of companies respecting the rules on dual price displays has increased, further efforts are needed to improve the respect of these rules.

A **Fair Pricing Agreement** was launched on 28 August by a number of representative business organisations and the CPB, inviting companies to join the initiative. It is lead by the Estonian Chamber of Commerce and Industry and follows the lines of the voluntary initiatives employed successfully in the previous changeovers. The subscribers to the Agreement (e.g. retailers, financial institutions, local governments, internet shops etc) commit to refrain from abusive changeover-related practices, i.e. 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.

As of mid-October, around 450 subscribers had joined the Agreement, including 12 local governments, covering more than 2 300 sales/activity points. If the terms of the Agreement are breached, fines⁷ can be given and the right to use the sticker is withdrawn. An information campaign including outdoor advertisement, radio, print media and internet advertising was carried out in September and a second campaign is planned. The Chamber of Commerce estimates that there are some 3 500-4 000 active companies in the retail sector in Estonia, so it is important to increase the number of subscribers to the Agreement which should also include the local municipalities. It should be envisaged to use special trained volunteers to promote the uptake of the Agreement.

It should be ensured that the monitoring of the correct implementation of the fair pricing agreements and possible abusive price practices take place also on 1 and 2 January.

The uptake of the fair pricing agreements should also be improved. Special attention should be paid to increasing the coverage among small and medium-sized companies. For this purpose, volunteers having received special training could be used (for instance students or pensioners). This could also include the volunteers that are already monitoring the correct implementation of the dual displays, who could promote the fair pricing agreements at the same occasion. All 226 local municipalities should also subscribe to the agreements.

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.

Special attention should furthermore be paid to detect abusive practices and unjustified price increases on frequently purchased products, such as those provided by restaurant, cafés and hair-dressers etc., since these contribute disproportionately to the public perception of changeover-related price increases.

The efforts to enforce the rules on dual price displays also need to be further pursued.

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The maximum fine is 50 000 kroons, corresponding to some 3 200 euro.

2.5. Communication on the euro

The quantitative objectives of the communication strategy for the euro introduction in Estonia is to ensure that 90 % of all Estonian residents are well informed about the practical aspects of the changeover and that 65 % of the Estonian residents support the euro by the time of the changeover.

After the Council decision on 13 July, the Estonian authorities have speedily organised the implementation of the communication plans. They involve a mix of tools involving more direct contacts with the residents (direct mailings, seminars, exhibitions, etc) and mass media tools (radio and television spots).

The three waves of the mass media campaign that are running from August till December 2010 aim at explaining the major practical aspects of the changeover. The Commission supports, via a grant agreement, up to 50 % of the eligible costs of agreed communication actions. The European Central Bank supports the national information campaign by delivering publications, organising exhibitions and other public relation events and by providing significant help for the mass media campaign.

Given the fact that the bulk of the campaigns could not yet reach the target groups, it is not possible to assess their outcome. Opinion polls results and public opinion reflected in the media, however, show that fears of abusive practices and loss of purchasing power are clearly present. Vulnerable groups seem to need extra reassuring information.

With only a few months to go, the Commission urges the Estonian authorities to resolutely implement and, where necessary, complement the communication plans for the euro introduction in order to reach all Estonian residents in time with the necessary information. Special attention should be paid to vulnerable groups. The Commission also recommends the Estonian authorities to prepare a crisis communication plan.

3. STATE OF PUBLIC OPINION IN THE MORE 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 autumn 2010 'NMS-8'⁸ survey (Flash EB n°307) is the eleventh of its kind. The fieldwork for the survey was carried out in September 2010.

For the purposes of this report, the results of the latest Eurobarometer survey were compared with the results of the previous survey conducted in the NMS (Flash EB n°296, May 2010). In view of the still difficult current economic climate, including the sovereign debt crisis in euro-area Member States, the latest results show an overall slackening in NMS-8 citizen's support

⁸ The Eurobarometer surveys always provide results for the new Member States (NMS) that are not euro-area Members of the time. The latest survey covered Poland, the Czech Republic, Hungary, Bulgaria, Romania, Latvia, Estonia and Lithuania. Since Cyprus, Malta, Slovenia and Slovakia have already joined the euro area they are not included anymore. In total, about 8000 randomly selected citizens have been interviewed.

for the euro introduction since May 2010. However, the current levels of support are not lower than during the first waves of this survey conducted in 2004 and 2005.

3.1. Support for the euro

Between May and September 2010, NMS-8 citizens' support for the introduction of the euro in their countries decreased somewhat. However, overall, a relative majority of respondents expected the introduction of the euro to have positive consequences for *their country* (46%, -3pp). Positive consequences for *themselves* were expected by 43% (-4pp), while negative impacts were expected by 44% (+5pp) of respondents. Around half (47%) of the interviewees thought that the euro had a positive impact in current euro-area Member States.

44% (-4pp) of all respondents said *they were happy that the euro would replace their national currency*, while 45% (+3pp) said they would be *unhappy* about a change to the euro. The Romanians (51%, -4pp), Bulgarians (48%, -3pp) and Hungarians (47%, -7pp) were the most likely to say they felt *happy about a changeover to the euro*, whereas the Czech (60%, +7pp), the Estonian (58%, +4pp) and Latvian (56%, +6pp) 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 (+6pp to 34%).

3.2. Speed of the introduction of the euro

A bit more than one-third of NMS-8 citizens would like to see the euro introduced in the medium term ("after a certain time", 35%, -4 pp), while a similar share (38%, +6pp) opted for *as late as possible*. Around a fifth (21%, +6pp) wanted the changeover to happen *as soon as possible*. Poland (47%, +8pp), the Czech Republic (47%, -1pp) and Latvia (46%, no change) had the highest share of respondents who wanted to adopt the euro *as late as possible*. In Estonia, a quarter of the respondents (24%, +1pp) wanted to join *as soon as possible*, 38% (no change) *after a certain time* and 31% (-5pp) wanted to have the euro *as late as possible*.

3.3. Level of information

While a majority of NMS-8 citizens still do *not feel well informed* about the euro (57%, -2pp), a growing share (42%, +1pp) *feel well informed*. Four months before the euro introduction in Estonia, there has been a striking jump in the degree to which respondents in Estonia feel informed about the euro in comparison with May 2010, with 65% now feeling well informed (+15pp).

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% (no change) agreed that having the euro *would be more convenient for those who travel to other countries that use the euro*; and 85% (-1pp) agreed that the euro would make it *easier to shop in other countries using the common currency* etc.

Close to two thirds of respondents, however, feared price increases after the euro introduction (69%, +3pp), while roughly a fifth (19%, -4pp) of citizens believed in the long-term stabilising effect of the euro on prices. Most of these Member States showed an increase in the proportion of citizens who feared that the euro's introduction would increase prices. The Polish (81%, +5pp) and Estonian (80%, +3pp) respondents continued to be particularly

sceptical of the euro's impact on prices, with more than three-quarters expecting prices to increase.