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# Euro changeover in Estonia

Ingvar Bärenklau,  
eurocommunications manager



# Estonia's way to euro

- **Monetary reform 1992** - currency board system means that the Estonian currency, kroon, has been peg'd to German mark and afterwards to euro for **fixed exchange rate**.
- Estonia agreed to join euro-area already **joining to the European Union at 2004**. Accession to euro area will happen after Estonia meets all Maastricht European Monetary Union criteria.
- Open and deregulated economy is the reason why Estonia has not been able to join euro area so far. Fast economic growth after joining the European Union meant real convergence with the EU averages and therefore **higher inflation numbers in 2006-2008**.
- New perspective to join euro-area appeared in 2009 with world economic crisis.



# Maastricht criterias

- At the present Estonia would be complying with all the criteria
- **Inflation** – from Nov 2009 12 month average inflation decelerates below 1.5%.
- The main risk was **budget deficit criteria**, where Estonia has to meet the 3% level in 2009 and 2010. Estonia has done budget consolidation in 2009 up to 9 % of GDP, bringing BD to 1,7% of GDP. (2010 2,5% estimated)
- **Government debt** in Estonia among the lowest in the European Union, 7,2% of the GDP in 2009. (max 15% projected at 2013).
- **Interest rates**. Estonia lacks the instrument for assessing the fulfilment of the criterion – 10-year kroon-denominated government bonds. The European Commission has stated that despite this, Estonia should not have problems with meeting the interest rate criterion. We have no reason to believe that the European Commission would change the current viewpoint.

# Euro decision-making process of the European Union

- **March-April** the European Commission and the European Central Bank perform their regular assessment to evaluate the readiness to join the euro area
- **12 May** - publication of Estonia's convergence report
- **June** - recommendation of euro-area Member States and consultations with the European Parliament
- **8 June** - ECOFIN meeting, discussion of Estonia's compliance on the basis of the assessments made by the Commission and the ECB and of the Commission's proposal
- **18 June** - the European Council discusses Estonia's readiness to join the euro area
- **13 July** – ECOFIN will set the changeover date and confirm the exchange rate as of 01 January 2011



# Euro changeover plan

- Estonia's changeover plan is being compiled by the **National Changeover Committee**, which has been operating since 2005. The head of the committee's operations is the Secretary General of the Ministry of Finance, Tea Varrak.
- The objective of the changeover plan is to prepare for a **smooth changeover** to the euro by providing government agencies with guidelines and the general public with information.
- The committee has convened **seven working groups** who address the following issues: cash and settlements (Eesti Pank and credit institutions); business environment; technical readiness of government agencies; consumer protection; legislative drafting; communications; and the calculation and observation of the fulfilment of the criteria.
- Together, the National Changeover Committee and the working groups compiled the **draft Act on the Introduction to the Euro**, which regulates the exchange of Estonian kroons to euro and the removal of the kroon from circulation, the dual circulation of the euro and the kroon, and lays down the necessary legal amendments for the changeover.



# Euro adoption as “big bang”

- The adoption of the euro in account money will be carried out according to the “big bang” scenario, i.e. there will be no transitional period.
- Since the €-day a two-week dual cash circulation period will begin:
  - ▶ payment is allowed in kroons and euro, but change is given in euro;
  - ▶ after the period of dual circulation, the only the only legal tender in Estonia will be euro



# Euro adoption principles

Kroons will be exchanged to euro at the **official exchange rate of Eesti Pank.**



- On the €-day, all kroon deposits will be converted into euro **automatically and free of charge.** All bank accounts shall maintain the same values in euro as they had in kroons.
- Banks will be exchanging kroons into euro **one month before and six months after the €-day at the official exchange rate and free of charge in all bank offices and thereafter for another six months in limited bank offices.**
- After that, Eesti Pank will exchange kroons into euro at the official exchange rate free of charge for an **unlimited period.**

# Euro adoption principles

**Kroon cash** will be withdrawn from circulation and euro will be distributed into circulation smoothly through ATMs, bank offices, sales and service points.



- **Card payments** will become euro-based as of the €-day.
- **In ATMs**, kroons will be replaced by euro at least within 48 hours.
- As a rule, **taxes and benefits** will be rounded in the more favourable direction for taxpayers (positive example to the private sector.)
- No transitional period in **accounting** – all statements regarding periods that end at the €-day or later will be submitted in euro.

# Why is the euro beneficial?

**The adoption of the euro will have a positive effect on Estonia's economy and the confidence of the people.**

- The changeover reduces the risk of currency devaluation and setbacks in deposits.
- There will be **no currency exchange costs** and interest rates on loans will decrease.
- The euro **fosters the stability of our economy**, simplifies trade and, for investors, shows Estonia as a member of one of the most influential economic regions in the world.
- Investing into Estonia will become easier and safer for **foreign investors**, which helps to advance our economy and create **new jobs** in the long-run.
- After the changeover, travelling and purchasing goods and services from abroad will become considerably **more comfortable**.
- The adoption of the euro will affirm Estonia's position as a member of the core of the European Union



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