

Euro Changeover in Estonia



Presentation topics:

- **Changeover preconditions; the Maastricht criteria**
- **Estonia's National Changeover Plan**
- **Euro adoption principles**
- **Practical aspects of the euro changeover**



Decision process regarding the changeover

- **On 28 January**, the Estonian government adopted the updated convergence programme, which gives the EU an overview of the convergence of the Estonian economy and fiscal policy to the Maastricht criteria.
- **On 26 March**, Statistics Estonia will publish the government sector's debt and deficit figures for 2009.
- **In March–April**, the European Commission and the European Central Bank will conduct a regular assessment to ascertain Estonia's readiness for the adoption of the euro.
- **In May**, a convergence report will be published based on the assessment.
- **On 8 June**, the Council of Economics and Finance Ministers of the European Union (ECOFIN) will meet to discuss Estonia's compliance with the euro criteria based on the assessments of the European Commission and the ECB. The European Parliament will also be consulted with.
- **On 18 June**, the European Council will discuss Estonia's eligibility for joining the euro area.
- **On 6 July**, if Estonia passes the above stages successfully, ECOFIN should make the final decision regarding Estonia's accession to the euro area and confirm the exchange rate as of 01 January 2011.



Maastricht criteria

- The precondition for joining the euro area is that Estonia meet the **criteria** for the adoption of the euro set by the **Maastricht Treaty** (a contract signed in 1992 that laid the foundation for the European Economic and Monetary Union):
- **Exchange rate.** The country must, for at least two years, participate in the currency exchange rate mechanism ERM II and keep the exchange rate of its currency stable against the euro without serious problems. The Member State may not devalue the exchange rate fixed in ERM II on its own initiative.
- **Price stability.** A Member State's annual inflation rate must not exceed the average of the three best-performing Member States in terms of price stability by more than 1.5 percentage points.
- **Interest rates.** The interest rate of at least 10-year kroon-denominated government bonds must not exceed the average of the three best-performing Member States in terms of price stability by more than 2 percentage points.
- **Sustainability of public finances.** The general government deficit must be lower than 3% of GDP. The general government debt must be lower than 60% of GDP.



Estonia has a good chance of meeting all the criteria

- **Exchange rate.** Estonia joined the ERM II on 28 June 2004 and has maintained a stable exchange rate of the Estonian kroon (1=15.6466 EEK).
- **Price stability.** In November 2009, Estonia fulfilled the price stability criterion. The fulfilment of the criterion is sustainable, i.e. Estonia's Harmonised Index of Consumer Prices (HICP) will also remain below the euro area's reference value over 2010–2011.
- **Interest rates.** Estonia lacks the instrument for assessing the fulfilment of the criterion – 10-year kroon-denominated government bonds. The European Commission has stated in its convergence reports 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.
- **Sustainability of public finances.** The debt burden of the Estonian government sector is the lowest among EU Member States and thus, there are no problems with fulfilling this criterion. In 2008, the debt burden of the Estonian government sector posted 4.8% of GDP. The debt burden for the years 2009–2010 is expected to rise to 8–10% of GDP due to the need of financing the budget deficit, but it will nevertheless remain considerably below the reference level of the criterion.

Budget deficit will remain within the limits of the criterion

- The government and the Ministry of Finance have adopted several additional measures to keep the government sector's budget deficit below 3%.
- Altogether, the fiscal position of 2009 has been improved by over 19 billion kroons, which makes our budget considerably more sustainable compared to other EU countries.
- According to the latest assessment of the Ministry of Finance, the government sector's budget deficit for the year 2009 will remain at 2.6% of GDP and is expected to shrink in the forthcoming years. The assessment of the European Commission regarding our budget deficit was given special consideration during the compilation of the budget of 2010.

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.
- In order to map the potential problems related to the areas of adoption and find ways to solve them, 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 changeover plan

Topics of the euro changeover plan:

- legal framework
- credit institutions and other monetary activities
- business sector issues
- taxation
- government sector
- consumer protection
- communication



Communication on the euro

- Public communication guarantees that Estonian residents will be adequately informed of the effects and practical changes related to the adoption of the euro.
- **The strategy has two levels:** informing the public in general and providing specific information to target groups:
 - brochures
 - an euro-related website <http://euro.eesti.ee>
 - information hotline
 - meetings and training sessions for various target groups
 - newspaper articles, television programmes
 - various exhibitions
 - advertisements in the media, outdoor advertisements, etc.
 - logo “**Tere, Euro!**” (“Hello, Euro!”)
 - direct mailing
 - networks of business and consumer organisations



Euro adoption principles

- 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 legal tender in Estonia will be the euro.

Tere
euro 

Euro adoption principles

The euro changeover is not an encore of the monetary reform in 1992!

- Kroons will be exchanged to euro at the **official exchange rate of Eesti Pank**. Although officially, the changeover exchange rate will be approved by ECOFIN, due to assemble in July, according to experts there is no reason to believe that the exchange rate would differ from the current pegged exchange rate of 1 EUR=15.6466 EEK.
- 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 and beneficiaries, by which the state is setting a positive example to the private sector.



Cash distribution

- The **frontloading** of euro will take place ca 4 months before the €-day;
- Banks may **sub-frontload** euro to their major clients ca 4 month before the €-day;
- Prior to that, a **campaign for the collection of coins and depositing cash** will take place.



Adoption of the euro in the business sector



- No transitional period in accounting
 - All statements regarding periods that end at the €-day or later will be submitted in euro;
- Minimum equity and share capital sizes 25,000 and 2,500 euro, respectively;
 - The minimal nominal value of a share will be 10 (euro)cents;
- Statutes may become euro-based already 6 months before the €-day.

Euro will not increase prices

- The adoption of the euro *per se* will not cause **prices to rise**, as the transition is presumed to take place at the current exchange rate and all prices must be converted to euro based on rounding rules.
- Pursuant to the **rounding rules** laid down by the respective regulation of the EU, kroons shall be converted into euro with the accuracy of 1 euro cent based on the third decimal after dividing.
 - For example: **264.50 kroons** → €?
264.50 kroons : 15.6466 = 16.90**4**63104
Rounding: if the third decimal is 4 or smaller, the value will be rounded down
Result: **16.90 €**



Euro will not increase prices

- In order to help people adjust to the new prices, retailers will be required to **display handwritten or printed prices at points of sale in both kroons and euro** six months before and after the €-day.
- The campaign due in autumn will also encourage retailers to use **fair rounding** by adhering to the rounding rules.
- The Consumer Protection Board will constantly be **observing the prices** of the main foodstuffs, commodities and services, and informing the public of the observation results. The observations will continue for at least 6 months after the €-day.



Euro will not increase prices



- The experience of the countries that already belong to the euro area shows that the one-off effect on prices resulting from the changeover posted 0.1-0.3%; thereafter the prices grew stable.
- Prices rose the most in restaurants and cafes, hair salons and other services targeted at the local market (also related to ordinary price adjustments).
- The main direct costs stem from the replacement of price tags and from IT changes.

Why is the euro beneficial for Estonia

- **The adoption of the euro will have a positive effect on Estonia's economy and the confidence of the people.**
- 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**, achieving the aims set when Estonia regained its independence.





Thank you for your attention!

