

# **Estonia's National Changeover Plan**

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## INTRODUCTION

Estonia joined the European Union (EU) on May 1st, 2004. The decision to join the EU, approved at the referendum held in the autumn of 2003, also represented support for the accession of Estonia to the euro area. The Government of the Republic and Eesti Pank (Bank of Estonia) have **set the goal to adopt the euro at the first opportunity**, as soon as Estonia is able to meet all the necessary conditions. On the basis of the spring prognosis of 2009 by the Ministry of Finance, the Government has decided to set the target of reaching the €-Day (i.e. the day when Estonia will accede the euro area and the euro will enter into circulation in Estonia) for **January 1st, 2011**. The changeover from kroon to euro will be performed at the current exchange rate of 1 EUR = 15,6466 EEK.

Practical preparations for adopting the euro were commenced already before joining the European Union. At the Cabinet meeting on January 15th, 2004, the Government of the Republic set the goal of being technically ready for adoption of the euro by mid-2006, which would have enabled transition to the euro from January 1st, 2007. On June 28th, 2004, Estonia also joined the Exchange Rate Mechanism II (ERM II), which is a preparatory system for accession to the euro area in order to ensure a stable exchange rate.

After Estonia's accession to ERM II, the European Commission and the European Central Bank (ECB) have already assessed Estonia's level of readiness to join the euro area on three occasions – in 2004, 2006 and 2008. The latest convergence reports, which were published in May 2008, assessed the economic and legal integration of 10 Member States with the euro area – Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia and Sweden. According to the reports, Estonia met the criteria concerning the exchange rate, government finance, long-term interest rates and legal convergence. For the latter it is presumed that the Currency Law and the Law on the Security of the Estonian Kroon will be repealed at the time of the accession to the euro area. The only criterion that Estonia failed to meet concerned price stability; the continued failure to meet it has been the main obstacle on Estonia's path to the membership of the euro area.

The economic prognosis included in the convergence programme approved by the Government of the Republic on January 28th, 2010, and the framework of the planned budgetary policy allow to believe that Estonia will sustainably fulfil the price stability criterion that until now has remained unfulfilled, as well as the criterion concerning sustainability of the public finance which showed the risk of being impossible to fulfil in the context of economic recession.

The expansion of the euro area is based on the assessments of the European Commission (hereinafter *the Commission*) and the European Central Bank (hereinafter *the ECB*). The next regular convergence reports are due in spring 2010. When the Commission and the ECB have presented their opinions, the European Parliament has been consulted, a recommendation has been issued by the Eurogroup and a discussion held with the European Council, the Council of Ministers (ECOFIN – the Council of Economics and Finance Ministers of the European Union) will issue its final assessment

on Estonia's readiness for adoption of the euro.

In order to prepare the transition to the euro, the Government formed an expert commission with its order No. 53 from January 31st, 2005 „Establishing of an Expert Commission for Coordination of Actions Necessary for Smooth Transition to the Euro”. The head of the Commission is the Secretary General of the Ministry of Finance.

At its first meeting (February 15th, 2005), the Expert Commission decided to establish six task forces for mapping of potential problems in areas related to the introduction of the euro and developing of solutions – the joint task force of Eesti Pank and credit institutions, the business environment task force, the task force for technical preparation of governmental authorities, the consumer protection task force, the legislative drafting task force and the communication task force. In 2009, it was further decided to form a seventh task force which undertakes to monitor and keep records on fulfilment of the euro convergence criteria. The task forces include participants from both the public and the private sector<sup>1</sup>.

The National Changeover Plan has been devised on the basis of information obtained from the task forces. Meetings have been held by the task forces since March 2005, and issues needing scrutiny in relation to the changeover to the euro have been mapped. The objective of the plan is to provide directions for governmental authorities and information for the broader public in order to prepare for the changeover to the euro. The plan is supplemented in line with emergence of problematic aspects concerning the changeover to the euro and development of solutions either within the task forces or elsewhere. The National Changeover Plan is a public document which is available in Estonian, Russian and English on the web pages of the Ministry of Finance and Eesti Pank, as well as on the Euroweb at the address [euro.eesti.ee](http://euro.eesti.ee).

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<sup>1</sup> More detailed information about the membership of the task forces is provided in Appendix 1.

## THE PATH TO THE MONETARY UNION

In order to achieve financial stability after World War II, European countries joined the Bretton Woods System, a framework in which exchange rates of national currencies were pegged to the US dollar. Inspired by the success of the European Community and the prospect of even closer cooperation, the heads of states of the European Community met in The Hague (Netherlands) in 1969 and proclaimed the establishment of the Economic and Monetary Union (EMU) as the official goal of the European integration.

A plan was drafted in 1970 under the authority of the Prime Minister of Luxembourg Pierre Werner, which envisaged the achievement of the Economic and Monetary Union in three stages over ten years. However, the collapse of the Bretton Woods System and the decision by the US government to float the exchange rate of the US dollar created instability between European currencies and put a stop to the initial plan for the establishment of the monetary union. This was followed by attempts to stabilize exchange rates within a framework of limited fluctuation margins.

By 1985 when the Single Market Programme was adopted, it had become evident that the potential for an integrated market could not be fully realized as long as the relatively high foreign exchange margins and instability due to exchange rate fluctuations remained. Economists proved that in the long term, achievement of free movement of capital and stability of exchange rates was impossible in a situation where each Member State could pursue an independent monetary policy. A monetary union became the solution.

In 1992, the Member States of the EU concluded the Maastricht Treaty, forming a basis for establishment of the common economic and monetary union of Europe. The planned outcome was the introduction of a single currency in Europe. The single currency was to provide traders in a single market a uniform price scale and means of payment, which would significantly simplify and stimulate trade between the Member States. Preparations were performed in three stages, the last of which began in 1999 with the creation of the euro and the commencement of the single monetary policy.

In order to pursue a single monetary policy and issue a common currency, the European Central Bank (ECB) was created, which forms the European System of Central Banks (ESCB) together with the national central banks. The ECB, together with the ESCB, commenced the implementation of the common monetary policy from January 1st, 1999. On the same date, the exchange rates of national currencies were irrevocably pegged to each other and the single currency, the euro, was introduced. Euro cash was put into circulation on January 1st, 2002. To date, 16 Member States have joined the euro area (the most recent one was Slovakia at the beginning of 2009).

## THE MAASTRICHT CRITERIA

In order to gain full membership of the European Economic and Monetary Union and join the euro area, EU Member States with derogation shall first participate in the exchange rate mechanism ERM II and bring their economic indicators into conformity with the Maastricht nominal convergence criteria assessing the sustainability of the public finance, price and interest rate convergence and exchange rate stability:

- *Public finance.* No excessive budget procedure has been initiated against the state. For this decision, the reference values comprise the government budget deficit not exceeding 3% of the GDP (a temporary and minor exceeding of the 3% limit is allowed in exceptional cases) and the government debt either below 60% of the GDP or approaching the required level at a satisfactory pace.
- *Exchange rate.* The country shall participate in the currency exchange rate mechanism ERM II for at least two years and keep the exchange rate of its currency within the normal fluctuation margins prescribed by the ERM II without serious tensions. No Member State may devalue the exchange rate specified within the ERM II at its own initiative.
- *Price stability.* The inflation rate of the state must not exceed the average inflation rate of the three best performing Member States by more than 1.5 percentage points.
- *Interest rates.* The long-term interest rate of the state must not exceed the average long-term interest rate of the three Member States with the best results in price stability by more than 2 percentage points.

The objective of the convergence criteria is to ensure that economic development within the EMU is balanced and does not generate tensions between Member States. In addition to the nominal convergence criteria, the European Commission and the ECB, in their assessment of a Member State's level of readiness to join the euro area, also take into account the results of the integration of markets, the state and development of a Member State's balance of payments, as well as the development of labour unit costs and other price indices. All acceding states shall also bring their relevant national legislation into compliance with the EU legislation.

The latest regular convergence reports assessing the readiness of Member States with derogation for changeover to the euro were published by the European Commission and the ECB in May 2008. According to the assessment, Estonia fulfilled all the nominal criteria for introduction of the euro except the price stability criterion. Despite the impacts of the global financial and economic crisis, Estonia's position with respect to meeting the criteria has improved:

- Estonia's general government budget has remained in considerable surplus throughout 2001–2007; accordingly, our public debt is the lowest in the EU. The economic recession has put extensive pressure on the state finance but the Government has managed to keep the government budget deficit below 3% of the GDP, applying additional budgetary policy measures. According to data published by Statistics Estonia on March 26th, the government budget deficit of 2009 was 1.7% of the GDP.

- Estonia has been a member of the ERM II for over 5 years and the exchange rate of the kroon has remained stable during that time . Thus, Estonia meets the exchange rate stability criterion and the fixed rate of the kroon against the euro will further ensure fulfilment of this criterion in the future.
- Against the background of rapid economic growth, price level convergence and factors arising from the external environment such as the rapid growth of raw material prices, meeting the price stability criterion was the most complicated task for Estonia. By now, the 12 months' average inflation (harmonized consumer price index, HCPI) has promptly slowed down due to both foreign and national factors. In November 2009, Estonia fulfilled the Maastricht inflation criterion which had been problematic until then. According to the latest prognosis by the Ministry of Finance, we are also going to meet the criterion in 2010 and 2011. Accordingly, there are no problems with the sustainability of the inflation criterion.
- Estonia lacks the proper instrument for assessing the convergence of interest rates (i.e. an at least 10-year government bond issued in Estonian kroons). However, the European Union has in its convergence reports drawn the conclusion from analysis that Estonia should not have any problem with meeting the interest rate criterion.

## THE STABILITY AND GROWTH PACT

Fiscal policy in the European Economic and Monetary Union is decentralized. Yet, an irresponsible fiscal policy can create instability and give rise to tensions in a union with common interest rates. In order to prevent the negative impact of an irresponsible fiscal policy on the single currency and price stability, the Stability and Growth Pact (SGP) has been established, providing restrictions on governments' budgetary policies. The SGP aims to achieve fiscal discipline within Member States and coordinate economic and budgetary policies, which would promote successful functioning of the common monetary policy.

***Achievement of fiscal discipline.*** According to the Pact, Member States must set themselves the goal of reaching the medium-term objective (MTO) of the budgetary position. These goals may deviate from the requirement of government budget position close to balance or in surplus, but they shall guarantee the adherence to the annual budget deficit limit of less than 3% of GDP, as prescribed by the Maastricht Treaty, even during economically more difficult years. The MTOs of the Member States having adopted the euro or participating in the ERM II shall remain within the range from -1% of the GDP to balance or surplus. MTOs are set in cyclically adjusted terms, net of one-off and temporary measures.

If a Member State fails to meet the budget deficit and/or debt criterion, an excessive deficit procedure (EDP) shall be initiated against the state and the Council of Economics and Finance Ministers of the European Union (ECOFIN) shall issue a recommendation to the state to correct the excessive deficit. Normally, the period granted for a Member State for correction is from the discovery of the excessive deficit until the end of the following year. The SGP also provides the Council with the option of imposing penalties on states within the monetary union that have an excessive budget deficit and fail to take effective action for its correction. The penalty may initially be imposed as an interest-free deposit payable to the EU (up to a limit of 0.5% of the GDP of the Member State), but should the excessive deficit not be corrected within two years, the penalty may be altered to a fine. Notifications of debt and deficit levels submitted by the Member State twice a year (by April 1st and November 1st) form the basis for the procedure of correction of excessive deficit. The submitted figures shall also be confirmed by Eurostat.

***Coordination of economic policies.*** Member States with membership in the monetary union shall annually submit a Stability Programme, and EU Member States striving for the EMU membership shall submit a Convergence Programme providing an overview of the budgetary and economic policies planned by the state. The objective of the economic policy reflected in the Convergence Programme is to meet the nominal Maastricht convergence criteria for the introduction of the euro, and in the case of the Stability Programme, to continue with a reasonable budgetary policy and to achieve and maintain a close-to-balance budgetary position. The programmes are submitted to the European Commission and the Council of the European Union for assessment once a year, at the earliest in mid-October and at the latest by 1 December, i.e., after the submission of the draft budget to the parliament (in order to be aware of plans for the following year and the planned government budget balance).



## THE IMPACT OF INTRODUCTION OF THE EURO ON ESTONIA

No significant changes in Estonia's economic policy will follow the introduction of the euro. Given that under the currency board regime, the Estonian kroon has been pegged to the Deutsche Mark since 1992 and to the euro since 1999, Estonia has essentially belonged in a monetary union with the EU core states for almost 18 years now. Under the currency board regime, as within a monetary union, a state does not exercise an independent monetary policy. Through its rigidly fixed exchange rate, the economy of Estonia already belongs in the immediate sphere of influence of the ECB monetary policy. Therefore, the introduction of the euro will cause no significant changes for Estonia in terms of monetary policy.

The difference of a currency board regime linked to the euro and a monetary union is the existence of an exchange rate. The exchange rate risk will disappear upon Estonia's accession to the euro area, which assures economic agents that the theoretical threat of devaluation will be non-existent also in the future. Accession to the euro area will also entail the obligation to follow a balanced economic policy in the future (see "The Stability and Growth Pact"). Together with the removal of the theoretical devaluation risk, accession to a stable economic area and continued balanced economic policy will increase long-term monetary stability in Estonia, which in its turn will be reflected in stable and low interest rates. This reduces the risk of a steep increase of interest rate like the one that could be observed during the economic recession in 2009. A stable financial environment in its turn promotes the recovery of economic growth and continued economic development.

At the introduction of the euro, Estonia's role in the economic policy of the European Union will also increase. Developments up to date have shown that countries outside the euro area have considerably less influence on the economic policy of the EU than those within the euro area. After full membership of the EMU has been achieved and the euro introduced, representatives of the Ministry of Finance will start participating in the work of the Eurogroup which only includes representatives of euro countries. Eurogroup's role in decision-making related to the EU economic policy will continue to increase in the future. Moreover, representatives of Eesti Pank will be involved in the formulation of the monetary policy within the euro area by participating in the activities of the Council, the most important decision-making authority in the ECB.

The Estonian economy is closely connected to the economy of the European Union – nearly 80% of Estonia's external trade is conducted within the EU and two-thirds of foreign trade transactions are performed in euro. The introduction of the euro will thus result in lower transaction costs, as the need for currency exchange will decrease. The experience of other countries has shown that such savings may reach up to 0.2% of the GDP a year. The euro will also enable a more effective comparison of prices.

Introduction of the euro will not result in any significant acceleration of inflation. Experiences up to date have indicated that the impact of the introduction of the euro has been of short duration and caused a one-time price increase, the average of which is just 0.1 –0.3 percentage points.

## THE MAIN PRINCIPLES OF CHANGEOVER TO THE EURO

The changeover to the euro shall be smooth. This requires the most extensive preparatory work possible, involving representatives from different institutions and target groups, and sufficient provision of information to the general public. The activities necessary for the introduction of the euro are planned so as to make the changeover as convenient as possible for the public. Regarding the interests of entrepreneurs, the simplest and most cost-effective scenario shall be applied while ensuring all the necessary preparations for a smooth changeover. Various measures will be applied in order to minimize the pressure for price increase.

The main principles of changeover to the euro are the following:

- Introduction of the euro as account currency, as well as in accounting and contractual relations, is performed as a “big bang”, i.e. without any *transitional period*<sup>2</sup>.
- In order to ensure a smooth changeover to the euro, a two-week dual circulation<sup>3</sup> period is applied starting from the €-Day (scheduled for January 1st, 2011), during which the euro and the kroon will be treated as equal legal tenders. Both euro and kroons are accepted in shops, change is normally given in euro. After the dual circulation period, the euro will become the sole legal tender in Estonia.
- In order to facilitate introduction of euro cash, credit institutions are obliged to change kroons into euro during six months following the €-Day (until June 30th, 2011) at the central exchange rate and without charging service fee at all bank offices providing cash services. In order to ensure smooth changeover to the euro and pursuant to an agreement with Eesti Pank, banks also intend to provide exchange at the central exchange rate and without service fee within one month prior to the €-Day (i.e. during December). From July 1st, 2011 (i.e. 6 months after the €-Day) to the end of the year 2011, credit institutions will exchange kroons to euro within a limited network of branch offices, pursuant to an agreement with Eesti Pank. Eesti Pank will exchange kroons to euro for an unlimited period of time, at the central exchange rate and without charging service fee.
- Six months before and after the €-Day, retailers are required to display either hand-written or printed prices at points of sale in both kroons and euro, using for conversion the exchange rate established by the Council of the European Union or, should it be unavailable, the official exchange rate of Eesti Pank. Retailers displaying prices in both kroons and euro shall already from September 1st, 2006, apply the official exchange rate of Eesti Pank when calculating conversions from one currency to another.
- In order to set a good example to the private sector, the kroon rates of taxes, state

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2 Transitional period – the period from the start of full membership in the Economic and Monetary Union to the moment when the national currency is no longer in use in accounting, contractual relations or as account currency. The period may coincide with the dual circulation period but may also be omitted (if “big bang” is applied).

3 Dual circulation period – the period when kroon cash and euro cash are in circulation as equal legal tenders.

fees, environmental charges and benefits specified in laws and regulations are rounded into euro in a more favourable direction for the public.

- Expenses related to the changeover are normally borne by market participants themselves.

# THE LEGAL FRAMEWORK

## 1. Changeover to the euro in the European Union law

The EU legal framework regarding introduction of the euro comprises three Council Regulations. Council Regulation No. 1103/97 provides the principle of continuity of legal instruments, rules for conversion from national currencies to euro and rounding rules. Regulation No 974/98 establishes the euro as the sole legal tender in the countries having joined the euro area and regulates dual circulation and removal of the national currency from circulation. This Regulation also covers aspects of the transitional period (which will not be applied in Estonia) and issues related to euro coins and notes. Council Regulation No. 2866/98 provides the fixed conversion rates between national currencies and the euro.

### Dual circulation period

From the date of entry into force of the Council Regulation establishing the date of Estonia's accession to the euro area and the exchange rate between the euro and the kroon (amendments to the Regulations 974/98/EC and 2866/98/EC), the euro will function as legal tender in the Republic of Estonia. According to the Government's programme, this date is set for January 1st, 2011. Considering that a dual circulation period with an optimal duration of two weeks is necessary to ensure a smooth changeover, the Act on the Introduction of the Euro shall provide that for 14 days after the entry into force of the aforementioned Regulation of the Council of the European Union, both euro cash and kroon cash shall be legal tender in the Republic of Estonia. Cash payments may thus be executed in both euro and kroons within two weeks following the entry of the euro into circulation. After the expiry of this term, the euro will be the sole legal tender in the Republic of Estonia.

### Rounding rules

Conversion to the euro is performed by dividing a value indicated in the Estonian kroon at a ratio to be determined by the European Council Regulation No. 2866/98/EC. The result obtained will be rounded to the nearest one cent based on three decimal places. If the third decimal is 5 or above, the converted value will be rounded up.

**Example 1.** If you wish to convert, for example, 264.50 kroons into euro, the following division shall be performed:  $264.50 \text{ EEK} : 15.6466 = 16.90463104 \text{ euro}$ .

The result must then be rounded to the nearest cent, taking only the third decimal 16,90463104 into account. If the third decimal is 4 or below, the converted value will be rounded down; in this example, rounding to the nearest cent would therefore yield 16.90 euro.

Conversion of euro into kroons is performed in a similar manner according to the aforementioned rule, but using multiplication instead of division. Inverse ratio derived

from the conversion rate shall not be applied and the conversion rate shall not be rounded or shortened.

**Example 2.** If you wish to convert 27 euro into kroons, the following multiplication shall be performed:

27 euro x 15.6466 = 422.4582 kroons = 422.46 kroons. In settlements, the result may be rounded to 422.50 kroons.

### **Continuity of legal instruments**

Pursuant to Council Regulation No. 1103/97/EC, the introduction of the euro shall not affect the continuity of contracts or other legal documents (incl. legal provisions, administrative legislation etc.). The introduction of the euro shall not affect terms and conditions of any legal document or exempt anyone from the performance of obligations, nor shall it entitle a party to unilaterally amend or terminate a valid document.

## **2. The Euro in the Estonian legislation**

Besides the European legislation, the Estonian national legal provisions will also be adjusted in order to provide the conditions necessary for the changeover to the euro. Draft legislation regarding the changeover to the euro has been submitted for opinion to the European Central Bank. The purpose of the aforementioned consultation procedure is to ensure the conformity of the national legislation with the legislation of the European System of Central Banks and the policy of the ECB (a more detailed regulation is provided in the Council Decision No. 98/415/EC).

When Estonia achieves full membership in the Economic and Monetary Union, it will result in a legal situation where Eesti Pank is entitled to issue euro banknotes at the permission of the European Central Bank and euro coins to the extent prescribed by the ECB; moreover, the euro is the sole legal tender on the territory of the Republic of Estonia after the dual circulation period, and Eesti Pank shall remove the kroon from circulation.

### **Amendments in legislation**

A comprehensive act will be adopted for the purpose of introduction of the euro in Estonia, which enables an overview of the legislation to be amended. The Act on the Introduction of the Euro (hereinafter *the AIE*) will provide for the procedure of exchanging kroons into euro and removing kroons from circulation, the regulation of dual circulation and the necessary amendments to existing laws (ca 200 acts). With the AIE, the Currency Act and the Act on the Security of the Estonian Kroon of the Republic of Estonia will be repealed. The AIE will enter into force on the date specified by the Decision of the Council of the European Union on abrogation of the derogation of the Republic of Estonia, on the basis laid down in subsection 2 of Article 140 of the Treaty of the Functioning of the European Union.

The AIE does not contain amendments to acts that require more comprehensive

amendments as a result of the changeover to the euro. Proceedings for the new wording of the State Fee Act and amendments to the Commercial Code and related acts will be conducted simultaneously with those for the AIE. The relevant amendments to the Eesti Pank Act were passed by the Riigikogu on June 7th, 2006. With the Amendment Act to the Eesti Pank Act, the Eesti Pank Act was brought into conformity with the requirements imposed by the Treaty of the Functioning of the European Union and the Statutes of the European System of Central Banks and the ECB to the central bank of a state with full membership in the Economic and Monetary Union. Discrepancies between the Eesti Pank Act and the Community law, specified in the Convergence Reports of 2004 by the European Central Bank and the European Commission, were removed by the Amendment Act to the Eesti Pank Act. With the AIE, the amendments of the Eesti Pank Act are also updated and formal amendments made.

#### Preparations

- The draft AIE was forwarded by the Ministry of Finance to ministries, business organizations and other relevant organizations for consultation and opinions on April 25th, 2006, as a part of the technical preparations for the changeover to the euro .
- The draft Act is regularly updated in accordance with changes occurred in the legal environment. The draft Act was re-submitted for consultation and opinions in the second half of the year 2009.
- In the end of 2009, the draft AIE was submitted for opinion to the ECB and the opinion was received on February 23rd, 2010.
- The draft AIE was submitted to the Riigikogu in March 2010.
- Preparation of the draft Regulation of the Government of the Republic will be commenced after the draft AIES has been submitted to the Riigikogu. The draft Act contains amendments to Regulations of the Government of the Republic where values in Estonian kroons are indicated in accordance with the currently valid regulation. Like the draft AIE, the Regulation to be devised enables an overview of the Regulations of the Government of the Republic to be amended.
- Regulations of Ministers to be amended due to the introduction of the euro will be prepared by the Ministries.

# THE CENTRAL BANK AND CREDIT INSTITUTIONS

## 1. Euro cash

Euro bank notes are denominated in 5, 10, 20, 50, 100, 200 and 500 euro. Identical banknotes are in circulation in all Member States of the euro area.

Euro coins are denominated in 1, 2, 5, 10, 20, 50 cents and 1 and 2 euro. The reverse of the coins showing the denomination is common for all Member States whereas the obverse is national and different in each country. Despite different obverses, all coins are legal tender throughout the euro area.

Eesti Pank selected the design of the national side of the Estonian euro coins by way of a public competition. 134 designs were submitted to the competition announced on June 18th, 2004, of which the jury selected the ten best entries. The selected designs could be voted on by a telephone voting during the period of December 4th–11th, 2004. The entry Hara 2 by Lembit Lõhmus received 12,482 out of the 45,453 votes given and was declared the winner. The winning design features the outline of Estonia and the word “Eesti”. Mint of Finland submitted the best tender in the international competition for minting of euro coins of Estonia, held in 2005.

## 2. Exchange of kroon cash into euro

Euro cash will be entered into circulation via three main channels: bank offices, automated teller machines (ATMs) and retailers. The kroon cash will be removed from circulation through bank offices and retailers.

**Retailers.** In order to facilitate the changeover from kroon cash to the euro, a two-week period of dual circulation is prescribed. During this period, payments in cash can be made in both kroons and euro at all sales and service points. Change will normally<sup>4</sup> be given in euro.

Although payments in kroon cash can be made in shops during the dual circulation period, the retail distribution network should not be used for realizing large amounts of kroon coins. According to the Act on the Introduction of the Euro, no enterprise except credit institutions and Eesti Pank is obliged to accept coins in amounts exceeding 20 kroons during the dual circulation period. A separate campaign is planned for collection of coins in the second half of the year 2010, conducted by the Banking Association in cooperation with commercial banks.

**Banks.** Although the euro is not a legal tender in Estonia prior to the €-Day, credit institutions will offer the opportunity to exchange kroons to euro at the central exchange rate and without service fee already at least one month prior to the €-Day (from

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<sup>4</sup> Since the objective of the dual circulation period is to smoothly remove kroons from and put euro into circulation, shops shall give change in euro whenever possible. Considering the possibility that euro cash may not have been delivered to shops in remote rural areas by the €-Day, the option of also giving change in kroons will remain for the dual circulation period.

December 1st, 2010). This is necessary in order to reduce the workload of both retail and service enterprises and credit institutions after the €-Day. The December exchange will be performed at all bank branch offices providing cash services, without service fee and at the central exchange rate. The December cash exchange is solely intended for natural persons and involves bank notes. Each bank will continue with the established format of currency exchange, preserving the prior reservation system.

From 01.01.2011, kroons can be exchanged to euro at the central exchange rate and without service fee at all bank branch offices providing cash services<sup>5</sup> for 6 months following the €-Day; thereafter within a limited branch network from 6 months after the €-Day<sup>6</sup> to 12 months after the €-Day, i.e. from July to December 2011<sup>7</sup>. Eesti Pank will exchange kroons to euro for an unlimited period and in unlimited amounts. The requirements for combating money laundering will be followed during the entire cash exchange period.

In cooperation between the Cash-in-transit Division of G4S and credit institutions, it is planned to prepare standard packagings for euro coins intended for small retailers, which can be obtained via frontloading and simplified sub-frontloading by intermediation of credit institutions.

***Automated teller machines.*** ATMs are one of the most important channels for putting euro banknotes into circulation. ATMs of different banks will be reprogrammed and filled with euro cash in the course of a joint project which aims to adapt all ATMs in Estonia to dispense euro banknotes at the latest within 48 hours as from the €-Day. During the dual circulation period, ATMs will distribute only €5, €10 and €50 denominations; after that term, the assortment of denominations will depend on the decision of the individual bank (as at present).

By now, reprogramming and dispensing of euro cash has been tested on the ATMs currently in use and general principles have been agreed upon. The exact logistical plan regarding the filling of ATMs with euro banknotes, as well as transportation of the cash needed for filling ATMs, shall be completed by July 1st, 2010.

#### Preparations

- Eesti Pank, in cooperation with credit institutions and cash transportation companies, will develop a detailed logistical plan for distribution of euro cash.
- Retailers should make the necessary preparations for the dual circulation period before the €-Day.

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<sup>5</sup> The principle of exchanging kroons for euro without service fee means that during the specified period, credit institutions will not charge fees for direct cash exchange transactions. Credit institutions are entitled to charge service fees according to their price list for accompanying transactions (e.g. depositing cash onto the account of another person, counting large amounts of coins on the spot, etc.).

<sup>6</sup> In the course of the exchange preceding the €-Day, euro banknotes are sold at the central exchange rate and without service fee for Estonian kroon cash, i.e. loose euro coins cannot be purchased before the €-Day (except in 'starter kits' sold to the public which contain euro coins for ca 200 kroons. The number of kits sold to one individual is limited).

<sup>7</sup> For up to 12 months from the €-Day, exchange of cash shall be ensured in at least one branch office of one credit institution in each county; in Tallinn, in at least one major branch office of each credit institution.



### **3. Coin collection campaign**

A separate campaign for collection of coins will be prepared, to be conducted by credit institutions in cooperation with the Cash-in-transit Division of G4S in the autumn of 2010. The purpose of the campaign is to provide the public with the opportunity to hand over existing kroon coins at banks during a certain period preceding the €-Day, thereby reducing the workload of cash exchange after the €-Day.

#### **Preparations**

- Credit institutions, in cooperation with the separate task force formed under the cash task force of Eesti Pank, will specify the details of the coin collection campaign, incl. the logistics of collection and counting of coins and transfer of amounts onto accounts.
- Provision of information to the public is prepared in cooperation between the euro communication task force, credit institutions and the Estonian Banking Association.

### ***4. Procurement, frontloading and sub-frontloading of cash and withdrawal of kroons***

Since 2003, Eesti Pank has been making preparations to ensure that receipt, storage and handling of euro cash, as well as removal from circulation, storage, counting and disposal of kroons would be efficient and secure. For this purpose, Eesti Pank has devised a cash changeover plan where the details of procurement, frontloading and sub-frontloading of euro cash, as well as removal of kroons from circulation, are set out.

Frontloading of euro banknotes and coins to credit institutions will take place 3-4 months before the €-Day. The objective is to alleviate the transport workload and ensure a rapid distribution of euro cash throughout Estonia. According to the plan, commercial banks may sub-frontload cash to their major clients starting from 4 months before the €-Day. The precondition of sub-frontloading and frontloading is that the euro banknotes and coins shall not be distributed to the general public before the €-Day. Credit institutions have prepared the first prognoses regarding sub-frontloading and frontloading, and the work will continue until the €-Day.

An innovation in comparison with the most recent expansions of the euro zone is the planned opportunity of simplified frontloading for small enterprises. Credit institutions will be entitled to frontload both euro coins and euro banknotes for the amount of up to 10,000 EUR with a simplified procedure, at the earliest 5 days before the €-Day. The procedure of simplified sub-frontloading is applied to enterprises with up to 10 employees and an annual turnover of up to 2 million euro.

The currency changeover comprises two equally essential logistical tasks – distribution of euro cash and withdrawal of kroons from circulation. The latter will start with the coin collection campaign which aims to reduce the workload during the exchange period. In addition, credit institutions plan campaigns encouraging people to deposit as much of the cash kept at home (coins and banknotes) as possible with banks.

During the exchange period, kroons will be withdrawn from circulation via the retail network and bank offices. During the dual circulation period, the main workload of cash transportation comprises kroon transports; detailed plans will be devised by the participants in order to ensure its smooth execution. The security of cash transportation will be ensured on the basis of an integrated plan devised by a task force formed under the Ministry of Internal Affairs.

#### Preparations

- Credit institutions have prepared sub-frontloading and frontloading prognoses which will be specified in the course of further work.
- Institutions involved in frontloading and sub-frontloading will prepare the conditions necessary for safe preservation of cash.
- Eesti Pank will make additional preparations for storage of increased amounts of cash.
- A separate security plan for frontloading and sub-frontloading will be prepared, in the compilation and implementation of which competent authorities will be engaged according to necessity.
- The security plan for frontloading and sub-frontloading has to be devised within the budget cycle preceding the €-Day, in order to enable planning of relatively large resources.

## **5. Euro cash training**

Eesti Pank plans to conduct a series of training sessions for cash handlers within the year 2010. The purpose is to distribute information regarding the security features of the euro, thereby minimizing the spread of counterfeited euro cash. In the course of trainings, a number of re-trainers will be trained who will train other cash handlers in their turn.

The training is planned in three stages. In the first stage, representatives of credit institutions and large businesses will be trained, who will then distribute the information in their enterprises. In the second stage, a larger circle of cash handlers will be trained in fifteen county capitals by means of lectures, printed and interactive materials. The training comprises security features of euro cash, identification of counterfeits and instructions on actions in case of suspicion of counterfeit. The target group of lectures includes cashiers, small retailers and other companies directly involved in cash handling. In the third stage, information on the security features of the euro is distributed among the general public via mass media, brochures, advertising, direct mail, exhibitions and other projects concerning the euro.

## **6. Introduction of the euro as the account currency**

The changeover to the euro account currency mainly concerns Eesti Pank, credit institutions and the related infrastructures – the settlement system of interbank payments, the settlement system of card payments and the securities settlement system.

### **6.1 General principles**

With respect to account currency, changeover to the euro will take place on the €-Day as a “big bang”, i.e. without any transitional period. Account currency in kroons will automatically, simultaneously and entirely be converted into euro. For conversion of the account currency into euro, the exchange rate fixed by the Council of the European Union and the agreed rounding rules will be applied.

All transactions executed from the €-Day will be indicated in euro. The value date of the conversion of account currency will be 01.01.2011 and account numbers are not changed. At the conversion of account currency into euro, the client will be provided with the final balance of the kroon account, the exchange rate and the initial balance of the euro account in the account statement. Advance and contractual payments will be converted into euro by each individual bank before execution. Banks shall indicate service fee charged at the provision of a service in kroons prior to the €-Day. Starting from the €-Day, kroon cheques will be cashed in euro. Banks will accept kroon cheques issued prior to the €-Day until the expiry of their validity, but not later than six months after the accession to the euro area.

## **6.2 Changeover to the euro and changes in the interbank settlement systems of Eesti Pank**

The settlement systems of Eesti Pank will be changed to euro-based on 01.01.2011, i.e. from the first banking day of the month of the introduction of the euro. From 03.01.2011, the settlement systems of Eesti Pank will only settle payments in euro.

Key preconditions for the transition of the settlement systems of Eesti Pank comprise the already performed preparations – on May 19th, 2008, Eesti Pank implemented the Trans-European Automated Real-time Gross Settlement Express Transfer System TARGET2-Eesti. From 01.01.2011, Eesti Pank will shut down the express payment system EP RTGS. The prior transactions in EP RTGS, incl. money settlement of stock exchange and OTC transactions, will be transferred from EP RTGS to the Trans-European express transfer system TARGET2-Eesti.

The functionality of the retail payment system ESTA inherently includes readiness for euro settlements. Prior to the €-Day, the legal framework will be modified and tests of readiness for the euro will be performed with other members of the system.

### **Preparations**

- As the express payment system EP RTGS which will be shut down prior to the €-Day forms a channel for execution of collateral payments and monetary policy transactions (contributions of banks to their mandatory reserve with Eesti Pank) in ESTA, Eesti Pank will develop a business model in order to ensure the membership in ESTA at the termination of EP RTGS and smooth execution of monetary policy transactions of the euro zone.

The readiness of the retail payment system ESTA needs testing with banks; the legal framework of ESTA shall also be changed to euro-based.

### **6.3 Execution of card payments in euro instead of kroons**

Card payments will become euro-based from the €-Day. The changeover to the euro is based on the principle that it should be performed with the shortest possible interruption for card holders. Consumers should take into account that certain failures in card payments may occur during the first few hours of the €-Day.

To ensure a smooth changeover, software upgrades at points of sale will begin simultaneously with the start of the conversion of accounts into euro, i.e., at 00:00 on the night of the changeover on January 1st, 2011.

#### **Preparations**

- New software for payment terminals and cashier systems will be developed. The Card Centre of Banks and commercial banks will agree upon a common code of practice. Users of payment terminals will be notified of forthcoming changes.

### **7. Transition to euro-based bank services**

All bank services will be changed to euro-based at the latest from the €-Day, January 1st, 2011. In order to prevent accumulation of activities on a short period of time, banks may change services to euro-based already before the €-Day (e.g. contracts, time deposits etc.). The principle that up to the accession of Estonia to the euro area, the client shall absolutely be provided with the opportunity to use all bank services in Estonian kroons without service fees charged from exchange rate differences, shall be observed.

The principle of continuity of contracts shall apply to bank contracts. Therefore, amendment of existing contracts is not necessary. Kroon amounts will be converted into euro at the conversion rate fixed by the Regulation of the Council of the European Union. Repayment schedules of loan contracts, leasing contracts etc. may be indicated simultaneously in euro and kroons before the €-Day. The detailed course of action will be determined by each individual credit institution.

Starting from the €-Day, Eesti Pank will discontinue the daily forwarding of currency exchange rates to credit institutions. The exchange rates are available on the web page of the ECB, where all credit institutions may download the rates. Currency exchange rates are published on the operating days of TARGET. If TARGET is closed during a working day in Estonia (e. g. on Easter Monday), the most recently published exchange rates shall apply.

The list of currency exchange rates of the ECB does not include ten currencies, the daily exchange rates of which have been published by Eesti Pank. Eesti Pank is not planning to fix exchange rates of currencies in addition to those fixed by the ECB. Those who need additional information on exchange rates can use the exchange rate of the respective national central bank against the euro<sup>8</sup>.

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<sup>8</sup> If necessary, rules established for preparation of financial reports or customs procedures shall also be

The changeover to the euro will result in changes in the logic of displaying exchange rate information. The standard method applied in Estonia so far has been to display the value of the kroon against one unit of a foreign currency (e.g., in order to purchase 1 USD, 13.3 EEK must be sold). According to the new system, the national currency (EUR) will form the basis of 1 unit and all foreign currencies are shown vis-à-vis 1 EUR (e.g. 1 EUR purchases 1.22 USD).

## **8. Statistics and other reports submitted to Eesti Pank by credit institutions**

Reports devised and/or statements submitted to customers after the €-Day regarding the period when the kroon was the sole legal tender in Estonia shall be indicated in Estonian kroons.

The threshold of a large-value payment in the reports on payments statistics (MSTAT) will be set as 1 million euro, upon accession to the euro area.

In the reports on balance of payments statistics, the threshold for declaring of payments currently applied by Eesti Pank is 50,000 euro, as provided in the EU Regulation No. 924/2009. The current minimum limit of transactions included in the reporting is 10,000 euro. Until the entry into force of the Act on the Introduction of the Euro, the limits indicated in euro are converted into Estonian kroons at the exchange rate of Eesti Pank.

## **9. Internal financial accounting and financial reporting of Eesti Pank**

Full members of the ESCB shall execute financial accounting and reporting on the basis of common principles. Thus, the full membership in the ESCB provides additional requirements to the financial accounting and reporting of Eesti Pank. Eesti Pank is obliged to ensure the compliance of accounting and reporting with the requirements of the ESCB by the time of accession to the euro area.

# THE BUSINESS SECTOR

## 1. Accounting

An immediate changeover in accounting will take place on the €-Day - January 1st, 2011 -, i.e. kroon-based accounting will be replaced with euro-based.

### *a) Preparation of annual reports in euro*

Annual accounts shall be prepared with regard to the currency valid in Estonia at the end of the reporting period.<sup>9</sup> Since the mandatory changeover to euro-based accounting will take place on the €-Day, all reports regarding periods ending on the €-Day or later shall be prepared in euro.

### *b) Conversions in accounting related to the changeover to the euro*

The Estonian Accounting Standards Board will prepare a draft manual<sup>10</sup> which contains more detailed necessary technical regulation for execution and recording of conversions into the euro in accounting. Insignificant differences due to conversion and rounding of currency exchange rates may be accounted for and indicated in reports in a simplified manner. In case of increase or reduction of share capital, the resulting difference will be recorded under the item "Retained earnings from previous periods".

### *c) Changes in limitations of mandatory auditing and consolidation specified in kroons in the Accounting Act*

In the new wording of the Authorised Public Accountants Act, the new financial criteria of mandatory auditing and mandatory consolidation have already been provided in euro<sup>11</sup>.

## 2. Public limited liability companies

Upon the conversion of share capital and shares into euro, shareholders shall be treated equally and the rights of the shareholders shall be preserved pursuant to existing proportions. Amendments will be made to the Commercial Code, enabling all financial specifications significant for the activities of the company to be indicated in euro:

- i) 25,000 euro will be established as the minimum capital of public limited companies. Foundation of new companies with share capital indicated in euro shall

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<sup>9</sup>Upon changeover to the euro, it is important to take the financial year cycles of accounting entities into consideration. For the majority of accounting entities, financial year coincides with calendar year. With regard to this, the changeover to euro-based reporting from January 1st (i.e. the beginning of a new financial year cycle) is the optimal solution. The accounting entities whose financial year does not coincide with calendar year shall prepare the annual report in the currency valid at the end of the financial year. If the previous financial year ended after January 1st, the report shall already be prepared in euro.

<sup>10</sup>The draft manual is accessible on the web page of the Estonian Accounting Standards Board at:

[www.easb.ee](http://www.easb.ee)

<sup>11</sup> Entered into force on 08.03.2010, available at: <http://www.riigiteataja.ee/ert/act.jsp?id=13275292>

be made possible six months prior to the €-Day<sup>12</sup>.

- ii) 10 euro cents will be established as the minimum nominal value of shares of a public limited company. Moreover, the nominal value of a share shall be a multiple of 10 euro cents.
- iii) Public limited companies will be allowed to apply shares without nominal value. 10 euro cents will be established as the minimum book value of a share without nominal value<sup>13</sup>. A public limited company is not allowed to use both types of shares – with and without nominal value – simultaneously.

### 3. Private limited liability companies

Amendments will be made to the Commercial Code, enabling all financial specifications significant for the activities of the company to be indicated in euro.

- i) 2,500 euro will be established as the minimum share capital of private limited liability companies.
- ii) 1 euro will be established as the minimum nominal value of a share. The multiplicity rate of the nominal value of a share will also be 1 euro.

#### Preparations

- The Ministry of Justice, in cooperation with the Ministry of Finance, will prepare the amendments to the legislation (primarily the Commercial Code) necessary for the implementation of these changes. The amendments to the legislation should assume validity at least six months before the €-Day.

### 4. Investment funds

The following amendments will be introduced to the Investment Funds Act:

- i) management companies of a contractual investment fund<sup>14</sup> (hereinafter *fund*) will be allowed a solution enabling to also issue shares without nominal value in addition to shares with nominal value;
- ii) management companies of funds shall, in case of existing investment funds, indicate the nominal value of a share in euro if they change the conditions of the fund (with the minimum accuracy of 1 euro cent);
- iii) in case of new investment funds (founded after the €-Day), the prescribed minimum nominal value of a share will be 1 euro and the nominal value shall be expressed with the accuracy of at least 1 euro cent ;

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<sup>12</sup>Whether and which amendments to legislation, promoting a smoother changeover to the euro, would be possible to enact earlier, will be further analyzed.

<sup>13</sup>The establishment of a minimum book value for shares without nominal value prevents the emergence of shares with excessively low book value.

<sup>14</sup>For the nominal value of a fund founded as a public limited company, provisions of the Commercial Code regulating public limited companies are applied; therefore, the issue discussed does not concern funds founded as public limited companies.

- iv) if the fund has several types of shares, joint issue of shares with and without nominal value will not be allowed in order to ensure clarity and reduce complexity;
- v) if the fund has several types of shares, issuing of shares with different nominal values will be allowed;
- vi) management companies of funds will be allowed a solution which would enable changing of the conditions of the fund in a flexible and more cost-effective manner (management companies of funds are not required to coordinate the conditions of the fund, due to changes accompanying the introduction of the euro, with the Financial Supervision Authority in advance);
- vii) in case of both voluntary and mandatory pension funds, the requirement of mandatory nominal value will be preserved (the 10-kroon nominal value of pension funds will be replaced with 0.64 euro for both new and existing pension funds);
- viii) in order to minimize the possible error affecting the pension fund participant due to rounding at the time of redemption of shares, the number of decimal places at calculation of the net value will be increased (the 4 decimal places will be replaced with 5 decimal places);
- ix) the aforementioned amendments will be enacted at least six months prior to the €-Day .

## 5. Amendment of statutes

In order to achieve changeover to the euro in various statutes within an optimal time frame and without causing unnecessary expenses to organizations, the following amendments will be introduced to the Commercial Code:

- i) registration of statutes of new legal persons subject to private law, containing data in euro, will be allowed already prior to the €-Day, upon the entry into force of the Code.
- ii) pursuant to the objective of reducing the administrative workload, amendment of statutes is allowed with a simplified procedure<sup>15</sup>, if the amendment only comprises transition of the statutes to the euro.
- ii) starting from one year after the €-Day, state registers will not register any amendments to statutes unless the data contained in the statutes are transferred to euro on the same occasion.
- iv) upon the entry into force of the Code, already before the €-Day and within a year after the €-Day, entrepreneurs are exempted from the obligation to pay state fee at entering of an amendment concerning transition of a company's share capital from Estonian kroons to euro into the Commercial Register (the exemption from state fee would apply to entering of an amendment of statutes into the Commercial Register, incl. change of the amount of capital and entering of a change in a private or public limited company's share capital into the Commercial Register, as well as entering of an amendment of statutes of a public limited company into the Commercial Register in order to apply shares without nominal value).

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<sup>15</sup>Instead of a regular decision by the shareholders' or general meeting where at least 2/3 of the shareholders or votes represented at the general meeting must be in favour, such amendment can be approved if more than half of the shareholders or ~~24~~ votes represented at the general meeting are in favour.



## **6. Documents certifying advance payments (postage stamps, tickets etc.)**

Documents certifying advance payments which have their validity term indicated on them shall be valid throughout the indicated term. Based on the Regulation No. 1103/97/EC of the Council of the European Union, the introduction of the euro will not affect the continuity of contracts and other legal documents (incl. legal provisions, administrative acts etc.). Introduction of the euro will not change the terms and conditions of any legal document, exempt anyone from performance of assumed obligations or entitle a party to unilaterally amend or terminate a valid document. This applies to any agreements and documents certifying the existence of such, e.g. pre-payment cards, gift cards, tickets etc.

At least three months prior to the changeover to the euro, all relevant public-sector entities will be requested to submit information about the validity terms and terms and conditions of use upon the changeover to the euro of tickets and other similar documents previously issued by the entity. For tickets of local public transportation indicated in kroons, the minimum validity term will be established by the entity of the local government.

## **7. Automated machines accepting cash**

Regarding parking meters, casino slot machines and other automated machines accepting cash, no adoption of separate regulations related to the changeover to the euro are planned. Since the euro will be the sole legal tender in Estonia from the end of the dual circulation period, all cash automated machines should be adapted to the euro by the end of the dual circulation period.

# TAXATION

In the field of taxation, issues arising in association with the changeover to the euro are primarily related to the conversion of amounts fixed in kroons and prescribed in the Taxation Act and various tax-related acts, as well as tax amounts to be imposed/declared or already imposed/declared for previous periods .

## 1. Rounding rules

Amounts indicated in kroons in tax-related legislation will be converted into euro in the direction more favourable for the person, if possible.

The following rates are subject to amendment:

- i) the accuracy level of calculation of tax amounts:
  - a) *the requirement of full kroons* – pursuant to Section 97 of the Taxation Act;
  - b) *the accuracy level of 0.50 EEK* – Section 62 of the Alcohol, Tobacco and Fuel Excise Duty Act;
- ii) the minimum tax and interest amount imposed:
  - a) subsection 88 (2); subsection 100 (1); subsection 106 (6) and subsection 119 (3) of the Taxation Act (50 EEK) ;
  - b) subsections 7 (3) and (6) of the Land Tax Act (20 EEK) ;
- iii) certificate concerning the absence of tax arrears, issued if the amount of tax arrears does not exceed 100 kroons – subsection 14 (5) of the Taxation Act ;
- iv) subsection 97 (4) of the Customs Act – limit of compensation for the costs of destroying confiscated goods – 50 EEK ;
- v) tax rates: Alcohol, Tobacco and Fuel Excise Duty Act; Gambling Tax Act; Heavy Goods Vehicles Tax Act; Packaging Excise Duty Act ;
- vi) limits provided in tax-related Acts: basic exemption; amounts deductible from income; minimum amount of advance payment of social tax of self-employed persons; limit for the obligation to be registered as a person liable to value added tax.

## 2. Submission of data concerning the previous period

Immediate changeover will be applied to taxation on the €-Day. Expression of data concerning the preceding period is based on the principle that all operations shall be accounted for in the original currency. Reports regarding the kroon period shall be prepared in kroons and the Tax and Customs Board will convert the amounts to euro (except in cases when the original accounting has already been performed in euro).

### a) Submission and amendment of declarations

Information indicating monetary value which is submitted to the Tax and Customs Board either as hard copy or in electronic form shall be expressed in the currency in circulation on the respective period – i.e. information submitted during the period preceding the €-Day shall be indicated in kroons.

All reporting and settlements with the Tax and Customs Board, i.e. submission (including the calculation procedure) and amendment (including conversions) of

declarations (turnover declarations, customs declarations etc.) will be performed in the currency that was valid during the taxation period. The calculation procedure will be performed in kroons and the amount to be reimbursed/paid will be converted into euro pursuant to the general conversion rules.

**b) Financial liabilities imposed for the previous period**

Financial liabilities imposed or to be imposed for any previous period (fines, tax notices, notices of tax assessment, reports, declarations, amount of income tax to be reimbursed for the previous period or additional amount of income tax due) shall be calculated in kroons and converted into euro according to the regular conversion rules at the imposition / payment of the amount. Advance tax amounts payable on the business income of self-employed persons are also initially calculated in kroons and thereafter converted into euro.

**c) Tally cards of the Tax and Customs Board**

The balance of tally cards will be converted into euro at the moment of changeover to the euro, pursuant to general conversion rules.

**d) Schedules of payment of tax arrears in instalments**

Previously devised schedules of payment in instalments will be converted into euro automatically, at the conversion rate valid at the time of the changeover and pursuant to general conversion rules – no new schedule will be established for this purpose. The readiness of the Tax and Customs Board to issue instalment schedules in euro from the €-Day is of significant importance. The Tax and Customs Board will not issue any instalment schedules ten days prior to the €-Day.

**e) Responding to information inquiries**

Any tax-related information disclosed by the Tax and Customs Board (e.g. to the police) reflecting the previous period will be formulated in two currencies: the final amount will be calculated in euro but also indicated in kroons .

### **3. Revenue stamps**

Revenue stamps indicated on products in kroons prior to the introduction of the euro are allowed to be realized in circulation. The amount indicated in kroons on the revenue stamp will be converted into euro according to the general conversion rules.

### **4. Local taxes**

Amounts are expressed in kroons in local tax regulations; however, they will have to be expressed in euro. For this purpose, local governments shall be notified of the necessity of introducing amendments in good time in advance.

## **THE PUBLIC SECTOR**

### **1. Conversion and rounding of the revenue and expenditure of the state budget**

The Ministry of Finance has prepared the draft AI €, based on the following principles:

- i) conversion of public financial liabilities (environmental charges, taxes, fees) shall be based on the principle that amounts will be rounded in the direction more favourable for the person, if possible;
- ii) financial aid shall be rounded in the direction more favourable for the beneficiaries;
- iii) fines, penalty payments and environmental damage shall be rounded up;
- iv) state receivables and liabilities arisen prior to the €-Day shall be converted into euro according to the general rounding rule.

Pursuant to the draft Act on the Introduction of the Euro, the tax revenue to the state budget will decrease due to the rounding, estimatedly by ca 1 million kroons over 12 months, of which the negative impact of direct taxes on the state budget is ca 760,000 kroons (changes in basic exemption and other limits) and the negative impact of indirect taxes on the state budget is ca 240,000 kroons (changes in excise rates). According to the draft Amendment Act to the State Fees Act, the revenue will decrease by ca 100,000 kroons. Moreover, the estimated additional expenses due to rounding, based on the budget of 2010, are 800,000 kroons per year. The impact of changes in penalty rates on the budget is currently under assessment.

### **2. State accounting**

There is no need for major reorganization in state accounting. The Estonian Accounting Standards Board has prepared guidelines for the changeover to the euro which will need no complementing due to the specifics of the public sector.

The consolidated annual report of the state for the year preceding the changeover to the euro will be prepared in kroons.

For the Guidelines of the Estonian Accounting Standards Board, see the explanations by the business environment task force.

### 3. Statistics

The methodological base for the conversion of time-series data has been prepared by Statistics Estonia. Data communicators will be notified of changes in data communication. For this purpose, a communication programme intended for partners will be devised. Time-series will be converted by the end of the year preceding the €-Day.

### 4. Information technology

The readiness of IT systems for the introduction of the euro will be ensured by each ministry within their area of governance:

- i) The changeover to the euro in IT systems will be performed on the official day of national changeover to the euro. Kroons and euro will not be used simultaneously. Accounting with respect to previous periods will normally continue in kroons.
- ii) Ministries shall ensure the availability of funds for covering expenses related to the reorganization of information systems in the budget of the respective area of governance.
- iii) Ministries shall continue to ascertain their readiness and the readiness of their cooperation partners (providers of IT services) for implementation of the necessary changes.
- iv) Physical IT developments shall be commenced at the latest 5-6 months prior to the day of the changeover to the euro. The entire process from the announcement of public procurement, specification of actual operations and conclusion of contract to completion of IT development may require up to 1 year, depending on the system.

If possible, governmental institutions shall be technically ready for transition to the euro by July 1st, 2010. The following situation is considered as full technical readiness for the transition of information systems to the euro:

- all necessary adjustments have been made in the information system in order to indicate euro transactions and/or commencement of conversion operations.
- Information systems have been *adjusted or developed to euro-compatible in testing environments and provided with instructions and descriptions of how to adjust or develop production environments of information systems to euro-compatible immediately prior to the date of changeover to the euro. Such course of action is permissible if systems are based on one currency and there is no need for execution of transactions or accounting in euro before the changeover and in kroons after the changeover, or if conversion prior to the changeover date may disturb the operation of the information system.*

*As exceptions, adaptations of systems of the Tax and Customs Board, Social Insurance Board and Ministry of Internal Affairs shall be completed and the technical readiness thus achieved at the latest by November 1st, 2010.*

## **5. Display of dual prices in the public sector**

As is the case with entrepreneurs, state agencies are generally recommended to observe the principle of dual display of prices six months before and after the €-Day, in order to ensure the transparency of transactions made by state agencies and also to keep partners and customers well informed. Price lists will be displayed in both kroons and euro. This is an advisory requirement, since the respective charge rates are publicly available as amendments of relevant legislation, presumably published in Riigi Teataja (State Gazette) before July 2010. The final amounts in invoices and notices presented by the public sector shall be indicated in both kroons and euro, according to functionality. (E.g. rates of state fees and taxes in euro will be published in Riigi Teataja by July 2010).

While preparing to display public charges in dual currency, institutions shall develop the optimal method of indicating the charges, achieve technical readiness for indicating final amounts in invoices and notices in dual currency, develop a plan for information provision etc. The aforementioned actions shall be completed at the latest seven months prior to the date of changeover to the euro.

Institutions with closest financial relations with the public (e.g. the Tax and Customs Board, institutions collecting various fees and charges, the Social Insurance Board, the Agricultural Registers and Information Board, other institutions granting financial aid) should devise information materials providing relevant additional explanations and allocate necessary funds in their budget for this purpose.

## **6. Settlements: conversion of state settlements to euro-based settlements**

The settlement system of the State Treasury shall be re-programmed and the respective regulations shall be amended (rules of cash service, the procedure for entering state revenue into the budget etc.):

- i) mapping of functions to be changed and preparation of terms of reference for IT (completed in January 2010);
- ii) IT works and testing; preparation and coordination of regulations (01.03.-30.12.2010);
- iii) training and briefing of users (01.10.-30.11.2010).

Ministries shall be prepared to provide their IT systems with changes related to the requisite information in payment orders (BIC-based account numbers, account numbers, partially changeable reference numbers).

## **7. State fees**

Rates of state fees will be converted into euro, rounding amounts determined in kroons in the direction more favourable for the person, if possible. The following

principles will be used as a basis:

- i) Pursuant to the principles of charging of fees, the rate of a state fee shall cover direct and indirect expenses related to the execution of the respective operation; therefore, the rate of the state fee must not fall below the limit of coverage of expenses due to conversion.
- ii) An amount of up to 10 euro will be accepted in cash (at present, 100 kroons). Abolition of cash payments is not planned<sup>16</sup>.
- iii) Bodies charging state fees shall execute cash transactions in both currencies during the transitional period, as is the case with the private sector.

Rates of state fees are converted into euro in cooperation between institutions of the state and local government entity performing operations subject to charge of a fee. The State Fees Act will be adopted in a new wording.

## **8. Local governments**

In the end of the year 2009, the Ministry of Finance submitted an appeal to local governments and their national associations, stating that local governments should commence technical and legal preparations in good time. The financial task force for negotiations between the inter-ministerial committee of the Government of the Republic and the delegation of the Local Government Association Cooperation Assembly will continue the following:

- i) to introduce different aspects related to the changeover to the euro to representatives of local governments ;
- ii) to discuss the possibilities of organizing training sessions, briefing days etc. for local governments ;
- iii) the analysis of the financial implications related to the euro adoption and the possible state compensation for accompanying costs (incl. the decrease of land tax revenue as a result of the rounding of tax rates) .

For issues related to local taxes, see the chapter on taxation.

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<sup>16</sup>With respect to operations subject to charge of a fee, the option of cash payments should be preserved despite the increasing trend of electronic payments, especially for operations performed by the Citizenship and Migration Board and foreign missions of Estonia. At present, at least 35 institutions accept cash payments.

## **CONSUMER PROTECTION**

### **1. Dual display of prices of goods and services**

The Amendment Act to the Consumer Protection Act (adopted on December 15th, 2005, entered into force on January 13rd, 2006) repeals the provision according to which prices shall be displayed in Estonian kroons . The amendment enables to require the display of prices in euro as well.

Consumers will have difficulty accepting the new currency immediately. The new bank notes and prices need getting used to, especially given the exchange rate which does not allow for a simple conversion. The period of dual display of prices (six months before and after the €-Day) allows consumers to get used to prices in the new currency and adapt to different numerical values. However, the obligation to display price in both currencies is limited in order to prevent extensive additional expenses being forced on entrepreneurs, which in its turn would cause price increase.

The Regulation of the Minister of Economic Affairs and Communications No. 76 of April 14th, 2004 “Requirements to the Display of Prices of Goods and Services” was amended (entry into force on September 1st, 2006) by complementing it with rules for conversion of prices from one currency to the other. The mandatory period of display of prices in both currencies will be provided for with a separate amendment, from July 1st, 2010 to June 30th, 2011. During the aforementioned period, traders shall display the selling price of goods, the unit price of loose, non-prepackaged goods and the selling price of service or rates applied for calculation of the selling price both in Estonian kroons and in euro on printed or hand-written price tags and price lists at points of sale of goods and services. This ensures that consumers are provided with dual display of prices in all shops and points of sale selling commodities where consumers obtain most of their daily purchases. The period of mandatory display of prices in two currencies will be established with a separate regulation.

Until that time, the dual display of prices is recommended. Traders are recommended to display prices in two currencies as often as possible (on web pages, in advertising materials, catalogues, invoices indicating the final payable amount and purchase receipts). The indication of payable amounts in two currencies is particularly important prior to the €-Day, in order to prevent situations where customers convert the payable amount from kroon into euro themselves, applying an inaccurate conversion rate. In this context, it is essential to convert prices or amounts payable by the customer from one currency to the other in compliance with the rules provided in the aforementioned Regulation of the Minister of Economic Affairs and Communications.



## **2. “Fair price formation”**

**Fair price formation plays an essential role in minimizing the price increase related to the changeover to the euro.**

Rules for conversion and rounding of prices were established by the aforementioned Regulation of the Minister of Economic Affairs and Communications. Conversion will be performed at the central exchange rate of 15.6466. Rounding shall be performed to the accuracy of at least one euro cent. Prices may also be indicated at a value below one euro cent (e.g. 0.008 euro) which helps to prevent price increase due to rounding in case of lower service charge rates. Traders shall observe the rounding rules while converting prices from one currency into the other.

In the context of introduction of the euro, traders should attempt to minimize price changes and refrain from increasing of prices due to the changeover to the euro. For this purpose, a respective agreement will be prepared under the authority of the Estonian Chamber of Commerce and Industry and with participation of other enterprise organizations and the Consumer Protection Board, which entrepreneurs can enter into. Entering into the agreement will be promoted by way of information campaigns and an appropriate logo will be applied in order to distinguish traders having entered into the agreement.

## **3. Price comparisons**

Changes in price levels will be monitored prior to and following the introduction of the euro, in order to obtain an overview of price fluctuations related to the introduction of the euro. The public will be informed about the price comparisons, with the following purposes:

- i) to preserve an adequate perception of price dynamics among the public and
- ii) discipline entrepreneurs who might want to profiteer from the adoption of the euro by increasing prices .

The Consumer Protection Board performs regular (monthly) price monitoring which includes most frequently consumed food products, basic commodities and most frequently used services. The price monitoring will be continued for at least six months following the €-Day. The results of the price monitoring will regularly be published in the newspaper Maaleht and on the web page of the Consumer Protection Board. Commissioned by the Ministry of Agriculture, Estonian Institute of Economic Research conducts monitoring of prices of basic food products in markets and stores throughout Estonia. The price information is published on the web page of the Institute of Economic Research at [www.ki.ee](http://www.ki.ee).

## COMMUNICATION

The objective of the Estonian euro changeover communication strategy is to ensure that all residents of Estonia are sufficiently informed about impacts and practical changes due to the changeover to the euro. The Estonian communication strategy and the accompanying action plan have been completed in cooperation between the communication task force and interest groups representing the major entrepreneurs and consumers.

The attention is primarily focused on the general public and entrepreneurs, as their being informed in time and readiness are essential in order to ensure a problem-free changeover. Identification of other target groups was based on the specific features of information needs. Thus, additional information will be provided for pensioners, journalists, preschool children, schoolchildren and disabled persons by way of special information materials and channels.

Communication actions and messages focus on practical aspects of the changeover process – the questions concerning the introduction of the euro that will probably emerge among people. Information materials intended for the general public, including minorities and groups more difficult to access, contain the schedule of the changeover, topics related to the exchange rate, visual appearance and security features of the new currency, information on consumer prices etc. Information intended for the business sector includes topics such as amendments to the legislation, clarifications of accounting rules, application of IT, the rounding rule and dual display of prices, etc. Risk groups receive information about the changeover prepared with consideration to their special needs.

The communication action plan functions as the practical output of the communication strategy. The action plan envisages application of various types and channels of communication incl. local and national press, TV and radio, information hotline, Internet, mail, folders and brochures, outdoor advertising, as well as partners within the public, the private and the third sector. For certain target groups, personal communication through lectures, discussions and round-table meetings should prove the optimal solution.

The main official information centre of euro communication is the Euoweb at [www.eesti.euro.ee](http://www.eesti.euro.ee). The Euoweb continually intermediates the entire information flow related to the changeover to the euro, simultaneously functioning as a channel for distribution of euro-related messages and feedback from the public and providing an internal working environment for the euro communication team. All printed information materials intended for various target groups and other campaign materials are available on the Euoweb. The communication activity is also reported to the public via the network.

Prior experiences of other countries within the euro area and their advice contributed to the preparation of the euro changeover communication plan. Moreover, recommendations by the European Commission have been taken into account in the planning of communication. Implementation of the euro communication plan is supported by the state budget, Eesti Pank, the European Commission and the European Central Bank.

## APPENDICES

### Appendix 1. Membership of the Task Forces

#### **Expert committee:**

**Chairman:** Tea Varrak, Secretary General of the Ministry of Finance.

**Members:**

Aare Järvan, State Chancellery, Adviser of the Prime Minister;  
Marika Priske, Ministry of Economic Affairs and Communications, Secretary General;  
Märt Kraft, Ministry of Internal Affairs, Secretary General;  
Margus Sarapuu, Ministry of Justice, Secretary General;  
Rein Minka, Eesti Pank, Vice President;  
Juhan Lepasaar, State Chancellery, Director of European Affairs;  
Kaja Tael, Deputy Secretary-General of the Ministry of Foreign Affairs.

#### **Joint task force of Eesti Pank and credit institutions:**

**Chairman:** Rein Minka, Eesti Pank, Vice President.

**Members:**

Katrin Talihärm, Eesti Pangaliit, Executive Director;  
Arvo Juhkami, AS Sampo Pank;  
Tuuli Reisberg, AS Eesti Krediidipank;  
Sven Raba, MARFIN PANK EESTI AS;  
Jüri Kats, Tallina Äripank;  
Kristjan Kongo ja Regina Raag, Nordea Eesti;  
Hanno Hussar, Swedbank AS;  
Signe Madisson, Bayerische Hypo- und Vereinsbank AG, Tallinn branch;  
Margit Ruiso, AS Parex Bank, Estonian branch;  
Priit Kuusik, AS SEB Pank;  
Aet Sorokolet, Svenska Handelsbanken AB, Estonian branch  
Kairi Evard, DnB Nord, Estonian branch  
Eero Varkki, Balti Investeeringute Grupi Pank AS  
Ursula Altmets, NASDAQ OMX  
Ingrid Krieger, Financial Supervision Authority;

Five sub-task forces have also been formed under the joint task force of Eesti Pank and credit institutions: i) card payments task force, ii) task force for commercial processes of account currency, iii) technical task force of account currency, iv) cash task force, v) ATM task force.

#### **Business environment task force:**

**Chairman:** Veiko Tali, Ministry of Finance, Deputy Secretary-General.

**Members:**

Sören Meius, Ministry of Finance, Chief Specialist of the Entrepreneurship and Accounting Policy Department;  
Jaak Tõrs, Eesti Pank, Head of the Financial Intermediation Department;

Merike Kompus, Ministry of Economic Affairs and Communications, Deputy Secretary-General  
Mait Palts, Estonian Chamber of Commerce and Industry, Head of the Policy Planning and Legal Department;  
Marek Sepp, Estonian Confederation of Employers and Industry, lawyer;  
Urmas Volens, Ministry of Justice, Deputy Secretary-General;  
Kilvar Kessler, Financial Supervision Authority, Member of the Management Board.  
Julia Segerkrantz, Estonian Securities Centre, Executive Manager of AS Eesti Väärpaberikeskus  
Eero Kaup, Estonian Accounting Standards Board, Member

**Task force for technical readiness of governmental institutions:**

**Chairman:** Marek Helm, Ministry of Finance, Deputy Secretary-General

**Members:**

Kalju Kukk, Ministry of Environment, Acting Head of the Financial Department;  
Malle Soidla, Ministry of Foreign Affairs, Director General of the Financial Department;  
Kaie Koskaru, Ministry of Justice, Head of the Financial and Resource Management Services of the General Department;  
Peeter Seestrand, Ministry of Agriculture, Acting Deputy Secretary-General of Foreign Affairs and Development;  
Anu Angerjas, Ministry of Education and Research, Deputy Head of the Analysis and Planning Department;  
Margit Pado, State Chancellery, Head of the Financial Department;  
Indrek Eensaar, Ministry of Culture, Head of the Information Technology Office;  
Marelle Erlenheim, Ministry of Social Affairs, Secretary General;  
Andres Uusma, Ministry of Economic Affairs and Communications, Head of Budget Department;  
Mihkel Tammet, Ministry of Defence, Head of Procurement Department;  
Riho Kuppert, Ministry of Internal Affairs, Head of Financial Department;  
Martin Põder, Ministry of Finance, Head of the EU and International Cooperation Department;  
Ülle Mathiesen, Ministry of Finance, Head of the State Treasury Department;  
Ruth Paade, Tax and Customs Board, Head of the Revenue Department;  
Kaja Sõstra, Statistics Estonia, Head of the Methodology Department.

**Consumer protection task force:**

**Chairman:** Merike Kompus, Ministry of Economic Affairs and Communications, Deputy Secretary-General

**Members:**

Tiit Rebane, Ministry of Finance, Adviser of the Legal and Administrative Department;  
Reet Teder, Estonian Chamber of Commerce and Industry, Head of the Economic Policy and Legal Department;  
Marika Merilai, Estonian Traders' Association, Executive Director;  
Andres Sooniste, Consumer Protection Board, Director General;  
Riina Piliste, Ministry of Economic Affairs and Communications, Adviser of the Trade Services of the Internal Market Department;  
Linda Läänesaar, Consumer Protection Association, Executive Director;

Anne Laar, Ministry of Economic Affairs and Communications, Head of the Trade Services of the Internal Market Department;  
Veiko-Joel Kokk, Eesti Pank, Deputy Head of the Legal Department.

**Legislative drafting task force:**

**Chairman:** Tiit Rebane, Ministry of Finance, Adviser of the Legal and Administrative Department.

**Members:**

Kadi Kapral, Eesti Pank, Head of the Legal Department;  
Veiko-Joel Kokk, Eesti Pank, Deputy Head of the Legal Department;  
Külliki Puusild, Ministry of Justice, Adviser of the Private Law Services of the Legal Policy Department;  
Sören Meius, Ministry of Finance, Chief Specialist of the Entrepreneurship and Accounting Policy Department.

**Communication task force:**

**Chairman:** Tanel Ross, Ministry of Finance, Deputy Secretary-General

**Members:**

Kaja Kell, Eesti Pank, Head of the Public Outputs Sub-department of the International and Public Relations Department  
Ingrid Mitt, Eesti Pank, Leading Specialist of the Public Relations Bureau of the International and Public Relations Department;  
Inga Jagomäe, Head of the Government Communication Office;  
Villu Känd, Head of the European Union Information Service of the Government Communication Office;  
Kristi Jõesaar, Ministry of Finance, Head of the Public Relations Department  
Martin Pöder, Ministry of Finance, Head of the EU and International Affairs Department;  
Triinu Rajasalu, Ministry of Foreign Affairs, Director General of the Public Diplomacy Department;  
Kalev Vapper, Ministry of Economic Affairs and Communications, Head of the Public Relations Department  
Jana Rosenfeld, Ministry of Social Affairs, Public Relations Department, Adviser on Media Relations  
Pille Vaher, European Commission Representation in Estonia, Head of the Media Department.

**Task force for monitoring and accounting for fulfilment of the changeover criteria**

**Chairman:** Ivar Sikk, Ministry of Finance, Deputy Secretary-General

**Members:**

Andrus Säälük, Ministry of Finance, Head of the Macroeconomic Policy Department  
Agnes Naarits – Statistics Estonia, General Government and Financial Sector Statistics Department  
Viktoria Trasanov – Statistics Estonia, Price and Wages Statistics Department  
Ülo Kaasik - Eesti Pank, Head of the Central Bank Policy Department