

ADOPTION OF THE EURO IN LITHUANIA

Main tasks for the Bank of Lithuania

When acceding to the European Union, Lithuania assumed the obligation to adopt the euro in the future, which would allow the country to enjoy the benefits of the single currency of the European Union. Having assessed the benefits of the euro and the need for a comprehensive preparation for the currency changeover, the Bank of Lithuania considers **1 January 2007** to be the most acceptable date for the adoption of the euro in Lithuania.

The choice of the date is also based on Lithuania's participation in Exchange Rate Mechanism II (ERM II) for two years, following which the European Commission and the European Central Bank should publish convergence reports in **the middle of 2006** on Lithuania's economic, legal and institutional readiness to adopt the euro. Given a positive assessment, the Council of the European Union should take a decision regarding the exact date of the adoption of the euro in Lithuania as well as the final and irrevocable exchange rate of the litas and the euro.

Based on these assumptions, the Bank of Lithuania has planned what main tasks have to be undertaken while preparing for the adoption of the euro. The Board of the Bank of Lithuania approved a detailed action plan on 23 December 2004.

The Bank of Lithuania will co-ordinate its main tasks to be carried out for the adoption of the euro with other institutions, it will be flexible in its assessment of the situation, will take decisions that are most favourable with respect to the state and, where necessary, will adjust the planned actions.

I. PREPARATION FOR THE ADOPTION OF THE EURO

Legal framework

1. **In the first half of 2005** the Bank of Lithuania will draft the **Law on the Adoption of the Euro in Lithuania** to be submitted to the concerned institutions and organisations for discussion. Having taken into account their remarks and proposals, the Bank of Lithuania will submit the draft law to the Government of the Republic of Lithuania. The Bank of Lithuania will propose to pass the Law on the Adoption of the Euro in Lithuania as soon as possible in order to set favourable conditions for public institutions, businesses and the population to prepare for the currency changeover.

In the opinion of the Bank of Lithuania, the draft Law on the Adoption of the Euro in Lithuania should contain the following main provisions concerning the adoption of the euro:

- 1.1. the principles of conversion into the euro of the balances on the accounts of the population and enterprises with banks, balance sheets, securities, shares, social and other allowances, including those relating to the rounding up of converted amounts;
- 1.2. the duration of the period of dual circulation of the litas and the euro;
- 1.3. regulation of the process of litas withdrawal from circulation;
- 1.4. the period of dual price display (in litas and euro) on the labels of goods, bills for services, expression of wages and salaries and pensions in two currencies, as well as other aspects of this requirement;
- 1.5. the obligation for public institutions to amend the legal acts within their respective areas of regulation relating to the currency changeover (on social allowances, taxes, accounting, etc.).

2. **In combination with** the draft Law on the Adoption of the Euro in Lithuania, and taking into account its provisions, necessary amendments to the Law on the Bank of Lithuania, Law on the Credibility of the Litas, Law on Money, Law on Foreign Currency in the Republic of Lithuania and other laws will be prepared or proposals on their recognition as invalid will be submitted. Furthermore, an analysis should be undertaken to establish whether certain provisions of the Constitution of the Republic of Lithuania need to be amended.

Logistical and organisational preparation

1. **By the end of 2006** the Bank of Lithuania will procure the necessary stocks of euro banknotes and coins and will be prepared to satisfy the requests of domestic commercial banks for frontloading with euro banknotes and coins. The Bank of Lithuania will be closely co-operating with commercial banks on the flexibility of their working hours during the changeover, adaptation of ATMs, familiarization with banknotes and coins, and other organisational issues relating to customer service.

2. Subject to the decision by the Council of the European Union on the date for the adoption of the euro in Lithuania **in the middle of 2006**, the Bank of Lithuania will propose that the provision of the Law on the Adoption of the Euro in Lithuania imposing an obligation to display prices for goods and services, wages and salaries, pensions and other allowances in both the litas and the euro should be effective immediately. Prior to the decision on the adoption of the euro in Lithuania by the Council of the European Union, this statutory provision, in the opinion of the Bank of Lithuania, could be of recommendatory nature.

3. By **31 December 2006** the Bank of Lithuania will develop and prepare the organisational and technical infrastructure necessary not only for the direct adoption of the euro but also for full integration in the euro area. Among the major tasks is preparation for executing monetary policy operations of the European Central Bank, developing an interlinking mechanism between the national payment system and the euro area payment system TARGET, organisation of the accounting and statistical reporting of the Bank of Lithuania according to the European Central Bank requirements and restructuring the financial assets managed by the Bank of Lithuania.

Public communication and cooperation with Lithuanian and European Union institutions

1. In preparation for the adoption of the euro the Bank of Lithuania, in cooperation with the concerned institutions, will launch a public information campaign covering different aspects of the currency changeover in Lithuania in order to ensure transparency in the adoption of the euro, to create favourable conditions for the Lithuanian population for an adequate and timely preparation for the changeover to the single currency of the European Union.

2. In preparation for the changeover to the euro, the Bank of Lithuania will initiate a wide dialogue with different public institutions in Lithuania and the European Union and business organisations, will welcome their opinions on these issues and take them into account in its activities; it will also co-ordinate the setting up and the activities of various working groups or the establishment of other forms of co-operation. At the same time the Bank of Lithuania will emphasise the importance of independent preparation by other public institutions and business representatives for the adoption of the euro.

3. The Bank of Lithuania will take into consideration the experience of the countries of the euro area in adopting the euro and the recommendations of European Union institutions.

II. ADOPTION OF THE EURO AND EXCHANGE OF THE LITAS TO THE INTO EURO

1. The expected date for the adoption of the euro, if such will be the decision of the Council of the European Union, is **Monday, 1 January 2007**. On that day the euro would become legal tender to be mandatorily accepted in Lithuania.

2. On **1 January 2007** enterprise balance sheets, obligations and agreements of institutions, enterprises and individuals, and all litas accounts of the population with banks would be converted to the euro in accordance with established procedures.

3. According to the preliminary estimates of the Bank of Lithuania, for two weeks – until **14 January 2007** – the euro would be legal tender, but payments for goods and services would also be acceptable in litas (dual circulation period). From **15 January 2007** the euro would become the only legal tender.

4. The Bank of Lithuania will propose for commercial banks to exchange litas banknotes and coins into the euro free of charge for a period from **3 to 6 months following the adoption of the euro**. Later, commercial banks could still exchange litas into euros for a certain period of time, but a commission for the service could be charged.

5. The exchange of the litas into the euro by the Bank of Lithuania will be **free of charge for an unlimited period** at the cash offices of the Bank of Lithuania in Vilnius, Kaunas and Klaipeda.

Questions and Answers

What exchange rate will the euro be adopted at?

The position of the Bank of Lithuania is that the fixed exchange rate regime and the rate of the litas and the euro that had existed at the time of joining ERM II will also be appropriate at the time of the adoption of the euro in Lithuania.

Benefits of the adoption of the euro

The adoption of the euro will completely abolish any exchange rate risk between the national currency and the euro, and the Lithuanian financial market will become part of the common financial market of the euro area.

This will remove the need for currency exchange in settlements with the main trade partners in Europe, cut borrowing and transfer costs, and encourage investment and trade relations. The use of the euro by all main trade partners of Lithuania will make price comparisons easier, which, in turn, will promote sound competition, abolish price movements determined by exchange rate developments. These and many other factors should contribute to faster economic growth in Lithuania, creation of new jobs and, ultimately, prosperity rising to EU levels.

Requirements for EU Member States seeking to adopt the euro

The Maastricht Treaty sets the following convergence criteria for EU Member States seeking to adopt the euro:

- Inflation may not exceed average inflation in three EU Member States with the lowest level of inflation by more than 1.5 percentage points. Such price stability must be long-term.
- The deficit of the general national budget may not exceed 3 per cent of the Gross Domestic Product (GDP) or must rapidly and consistently be approaching this level.
- Public debt may not exceed 60 per cent of GDP or should be sufficiently and consistently diminishing.
- Long-term interest rates on Government securities (GS) may not exceed average long-term interest rates on GS in three EU Member States with the lowest level of inflation by more than 2 percentage points.
- The country's national currency must be stable and stay within the set fluctuation band against the euro ($\pm 15\%$) for at least two years of participation in ERM II.

At least once in two years or upon a request from a Member State that has not adopted the euro, the Commission or the European Central Bank (ECB) prepares reports on a Member State's progress in meeting the convergence criteria and presents these reports to the Council of the European Union.

On a proposal from the Commission, the Council of the European Union, after consultation with the European Parliament and discussions in a meeting of the European Council, decides whether the Member State meets the criteria established in the Maastricht Treaty.

Exchange Rate Mechanism II (ERM II)

ERM II is an exchange rate policy system of euro-area countries and EU Member States that have not adopted the euro. The main feature of the system is the central rate between the national currency of a country that has not adopted the euro and the euro, and the allowed exchange rate fluctuation band of ± 15 per cent around the central rate. The central rate of a country participating in ERM II must be appropriate to its economic fundamentals and ensure competitiveness.

The role of the Bank of Lithuania after Lithuania's accession to the EU and the adoption of the euro

The Bank of Lithuania will remain the central bank of Lithuania. The key change that occurred was that the Bank of Lithuania became a member of the European System of Central Banks (ESCB), comprising the ECB and the national central banks of all the EU Member States.

The membership of the ESCB results in closer cooperation in adopting decisions on the Bank's operating procedures, in the fields of statistics, accounting, etc. The Chairman of the Bank of Lithuania participates in the work of the General Council of the ECB enjoying the rights of full membership, whereas the Bank of Lithuania participates in the activities of various committees; however, as long as the euro is not adopted in Lithuania, it will not participate in establishing and implementing the single monetary policy. The Bank of Lithuania has transferred the initial amount of the required contribution to the ECB capital.

After the adoption of the euro in Lithuania the Bank of Lithuania will acquire voting rights in the Governing Council of the ECB, a key function of which is establishment of single monetary policy in the euro area. At the same time the Bank of Lithuania will pay the total required contribution to the ECB capital and will transfer part of foreign reserves to the ECB. However, the Bank of Lithuania will continue acting as the country's central bank ensuring that decisions adopted by the ECB are implemented in Lithuania.