

Inf€uro

NUMBER 5

OCTOBER 1997

In this issue

EMU

Mondorf-les-Bains:
Fine-tuning the euro

1

Interview

Jean-Claude Juncker,
Prime Minister and Finance Minister
of Luxembourg,
On course for 1999!

1

Interview with Mr Christos Papoutsis,
European Commissioner responsible
for energy, SMEs and tourism
SMEs will benefit from
the changeover to the euro

2

Interview with Bank of Spain
Governor Luis Angel Rojo,
Towards the harmonious integration
of Spain into EMU

3

The euro and the Member States

Finland: from the markka to the euro

4

In the field

The euro computing challenge

6

IT and the euro - a challenge for
companies and public administrations

7

Peter Coldrick, confederation
secretary and an economist at the
European Trade Union Confederation
European trade unions say "Yes"
to the euro

8

The euro and the markets

Financial markets:
a smooth passage

9

Banking and conversion charges

10

Calendar

The EMU Changeover Timetable

12

Internet Site

<http://europa.eu.int/euro/>

On course for 1999!

Inf€ When it comes to EMU in general and the euro in particular, what are the objectives of the Luxembourg presidency? What points would you particularly like to highlight?

The absolute priority for the Luxembourg presidency of the Council of the European Union has to be to maintain our course towards the third stage of Economic and Monetary Union which will begin on 1 January 1999. We have taken good note of the declarations made by Member States at the European Council meeting in Amsterdam and since, which indicate that this date should not be reviewed, and we are counting on the Member States to do whatever is necessary to ensure that their financial and budgetary performance meets the convergence criteria laid down in the Maastricht Treaty. It follows that the Presidency of the Council will have to ensure that nothing undermines the often enormous efforts undertaken by Member States to achieve their goal.

(> page 5)

Jean-Claude Juncker, Prime Minister and Finance Minister of Luxembourg



Mondorf-les-Bains: Fine-tuning the euro.

Meeting at Mondorf-les-Bains in Luxembourg on 12 and 13 September, the finance ministers of the Fifteen made further progress in their preparations for Economic and Monetary Union. The European media were quick to highlight what was no doubt the most spectacular of the important decisions taken during this informal Council, which was also attended by central bank presidents: that the bilateral exchange rates between participating currencies will be announced simultaneously with the list of countries in the first euro train, in all likelihood right at the start of May 1998. This decision will give businesses an important eight months' advance notice in their preparations for switching to the euro. It also demonstrates the monetary authorities' desire to maintain maximum transparency vis-à-vis financial markets whilst preparing the transition.

In addition to this important item of information about the euro timetable, ministers unanimously confirmed the central role the EcoFin Council will play in coordinating economic policies. This co-ordination will be based in the first instance on the instruments provided by the Treaty (Articles 102A and 103 as well as the Stability and Growth Pact). Ministers also agreed on the composition of the

future Economic and Financial Committee, which will be similar to that of the present Monetary Committee. The idea of closer co-ordination between euro zone countries was brought up, but no conclusions were reached on this stage.

In order to involve the ECB in co-ordinating economic policies, its president will take part in the Council meetings concerning matters related to Monetary Policy. Reciprocally, the Council president will take part in ECB meetings whenever necessary.

Finally the Council demonstrated a considerable convergence of views on the major elements of future exchange policy. Any orientations given will be exceptional in nature, and will be formulated in a qualitative manner, i.e. without any specified quantitative objectives, nor will they call into question the objective of price stability. However, the Economic and Financial Committee will monitor exchange rate developments on a regular basis. The Commission also undertook to come up with a proposal, by the end of the year, on how the Community should be represented in international bodies like the G7 or IMF. ■





Interview with Mr Christos Papoutsis, European Commissioner responsible for energy, SMEs and tourism

“SMEs will benefit from the changeover to the euro”

Many large enterprises are already prepared for the euro. The European Commission is taking steps to raise awareness amongst SMEs. They too will also benefit from the euro.

Inf€ *Don't you worry that the euro will mainly benefit large enterprises?*

On the contrary, it is small and medium-sized enterprises which currently suffer most severely from monetary fluctuations. Unlike large enterprises, they rarely have the resources to hedge against exchange risks; they shy away from juggling with several currencies and, for these reasons, often steer clear of establishing commercial contacts beyond their own borders. The euro will provide them with an opportunity to implement a European strategy, enter new markets and thereby develop their businesses.

Inf€ *Can small enterprises not involved in international trade still expect to benefit from the introduction of the euro?*

Small enterprises will benefit alongside the others from the changeover to the euro. In particular, when the euro comes on stream, suppliers to small businesses will make significant savings on their imports. SMEs should ensure that their suppliers pass on these savings in the form of price reductions. If this is not the case, SMEs, even very small ones, will be able to change their supply channels.

Inf€ *How far have small enterprises progressed with preparations?*

Compared with large enterprises, SMEs are barely starting to feel concerned about the changeover to the euro. The main error such businesses are likely to make is believing that the change is purely technical in nature. The introduction of the euro is of real strategic importance to all enterprises, including the very smallest, and all of their operations need to be adapted.

Inf€ *What is the Commission doing to help these enterprises to prepare?*

The Commission has a role to play in this area, but priority must be given to decentralised action in the field. SMEs expect a great deal from their banks, accountants, chambers of commerce and even their national administrations. The Commission must be a prime mover and sustain actions whilst guaranteeing their coherence and quality.

Inf€ *In practice, what type of action is the Commission taking?*

Firstly, the Commission is providing support, running priority information campaigns and undertaking a whole range of initiatives aimed at raising awareness amongst SMEs of what is involved in the changeover to the euro, as well as providing them with practical information and other elements to help them to prepare.

Secondly, the Euro-Info-Centres network, with 230 centres throughout Europe, has been running an information campaign on the euro aimed largely at SMEs. As part of this campaign, there have been numerous initiatives such as seminars, brochures, training sessions, the creation of Internet pages, videos and information packs.

Finally, the Commission has launched a call for tenders aimed at identifying the practical consequences for SMEs of the changeover to the euro based on case studies of several small enterprises. This will enable the Commission to draw up plans for the changeover to the euro for different types of enterprise, and make them available to SMEs next year in the form of brochures and CD-ROMs containing check-lists of actions to be taken.

Inf€ *Are SMEs involved in the decisions concerning them?*

The Commission has set up an ad hoc “SME and the euro” group to bring together representatives of SMEs, commerce, cooperatives, banks and accountants. The aim of this group is to ensure a regular exchange of information and experiences both between these various sectors and between them and the Commission.

Inf€ *What potential advantage — or disadvantage — does the euro represent for the tourist industry?*

The tourist industry is a perfect illustration of an industry that will benefit greatly from the changeover to the euro. There will be savings at every level amongst both tour operators and tourists. The one-off costs of the changeover will be more than offset by the year-on-year benefits which follow in the wake of the euro. ■

Interview with Bank of Spain Governor Luis Angel Rojo

Towards the harmonious integration of Spain into EMU

Inf€ *Spain has made huge efforts to be included in the first wave of countries for Economic and Monetary Union. Do you believe it will succeed? What still remains to be done?*

Over the past few years, the Spanish economy has made determined strides towards convergence with the more stable economies in the European Union. The trend in long-term interest rates and exchange rates has made it possible to rapidly achieve the convergence criteria for these variables. Similarly, the good results achieved in controlling price rises lead us to hope that we shall amply satisfy the inflation criteria. Finally, public finances are being overhauled to comply with the convergence programme which requires the public deficit to be at 3% by 1997. Consequently, it is highly probable that Spain will fulfil the Treaty conditions for participating in Economic and Monetary Union.

The major challenge we now face is to consolidate current levels of economic stability, continue the process of fiscal consolidation on a sustainable basis and take structural reform further to make the economy more flexible and efficient. By taking these steps, we shall ensure that Spain is harmoniously integrated into EMU and able to fully exploit the potential for economic growth resulting from monetary integration.

Inf€ *How is the Bank of Spain preparing for the euro? Have you set up a special unit to supervise the transition?*

I would first like to point out that with the introduction of the 1994 law on independence, the legal status of the Bank of Spain now almost entirely fulfils the conditions of the Maastricht Treaty with regard to the independence of the European System of Central Banks. Moreover, during this period of preparation for EMU, the management bodies of the Bank of Spain have very closely monitored all efforts to adapt to this new method of organisation. This work is now focusing on the gradual introduction of changes in the various departments of the Bank, but the first changes implemented concerned payment systems and monetary policy procedures and instruments, due to their complexity.

Inf€ *In your view, what are the main tasks that remain at European Union level in general and for the future of the European Central Bank in particular?*

The operational framework for the single monetary policy and the process of replacing national currencies with the euro has already been largely defined and accepted. Certain technical aspects of monetary policy instruments still have to be defined. The most

important question still to be resolved is the final definition of the internal organisational model which will serve as a basis for operating the European System of Central Banks. There is agreement, on the one hand, that implementation of the single monetary policy should be fundamentally decentralised and, on the other, that monetary policy decisions should, not surprisingly, be centralised at the European Central Bank. For this raft of measures, it remains to be decided how some of the tasks and responsibilities should be distributed between the European Central Bank and the national central banks in such a way as to ensure the efficient operation of the single monetary policy, whilst retaining the ability of national central banks to act in line with the principle of subsidiarity.

Inf€ *Are you satisfied with collaboration between the Bank of Spain and the European Monetary Institute? Are relations with the other central banks good?*

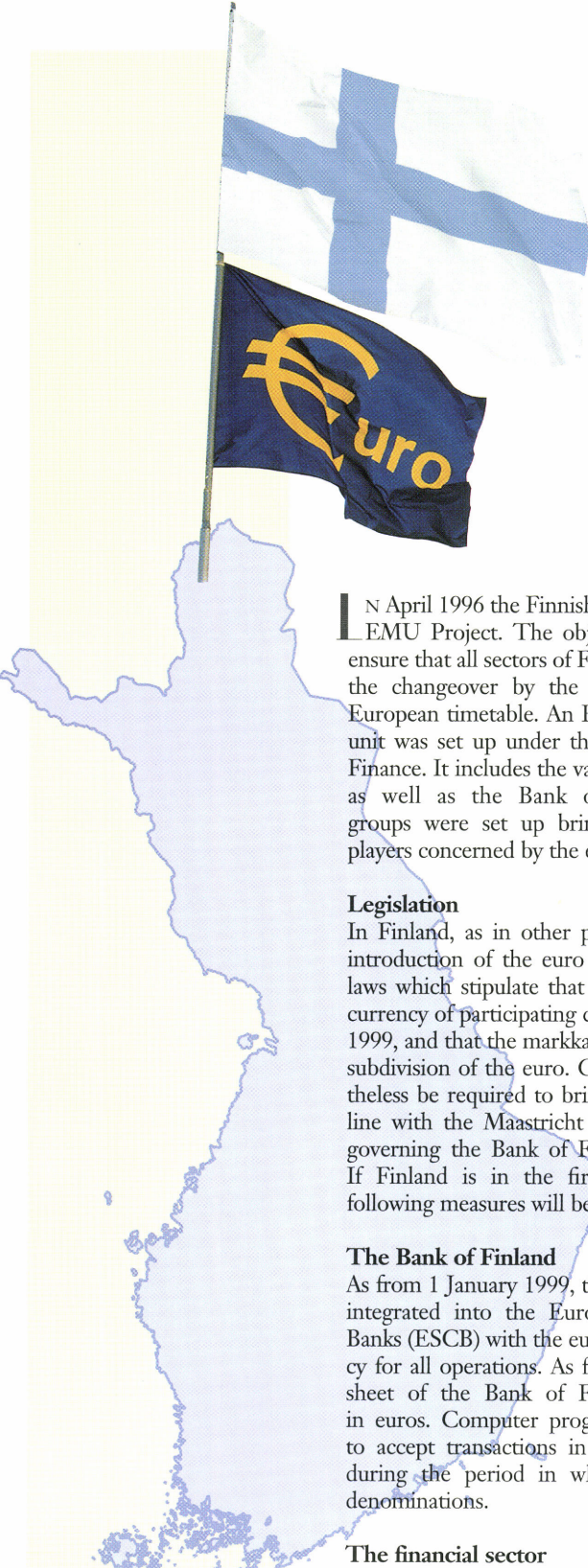
The Bank of Spain is participating actively at all levels in preparations for EMU within the E.M.I. Its relations with the Institute and other national central banks are very fluid. This does not mean that the Bank of Spain does not sometimes adopt positions that are out of line with those of other banks. In practice the Bank of Spain, like most other national central banks, has been seeking to retain certain specific aspects of its national financial structure. Acceptance of such national characteristics is naturally limited by the need for a truly single and effective monetary policy.

Inf€ *Are the Spanish people prepared for the euro? What initiatives have been taken to help them through this stage?*

Spain is one of the European Union countries in which public opinion is most in favour of the euro. To facilitate the transition to the single currency, the authorities have launched various initiatives to disseminate existing information, and to raise awareness amongst the various economic operators of the need to prepare adequately and sufficiently in advance. These initiatives include information campaigns and the creation of various publications. Similarly, the Bank of Spain has set up mechanisms to ensure that financial institutions, that is to say players directly affected by the introduction of the euro, are in a position to make the changeover to this new method of organisation as efficiently as possible. ■

Finland: from the markka to the euro

As a Member of the European Union since 1 January 1995, Finland has been on the road to convergence since the spring of the same year. The changeover process has been under way since April 1996.



IN April 1996 the Finnish government launched the EMU Project. The objective of this plan was to ensure that all sectors of Finnish society are ready for the changeover by the deadlines set out in the European timetable. An EMU Project management unit was set up under the aegis of the Ministry of Finance. It includes the various ministries concerned as well as the Bank of Finland. Six working groups were set up bringing together all of the players concerned by the euro.

Legislation

In Finland, as in other participating countries, the introduction of the euro is governed by European laws which stipulate that the euro will become the currency of participating countries as from 1 January 1999, and that the markka will at that time become a subdivision of the euro. Certain changes will nevertheless be required to bring Finnish legislation into line with the Maastricht Treaty, including the law governing the Bank of Finland and monetary law. If Finland is in the first wave of entrants, the following measures will be taken:

The Bank of Finland

As from 1 January 1999, the Bank of Finland will be integrated into the European System of Central Banks (ESCB) with the euro as the reference currency for all operations. As from this date, the balance sheet of the Bank of Finland will be published in euros. Computer programmes will be modified to accept transactions in both markkas and euros during the period in which the banks use both denominations.

The financial sector

The Finnish banks will be ready to accept payment orders, deposits and most forms of credit in both markkas and euros as from 1 January 1999 in response to demand from clients. The latter will receive communications from their banks denominated in the two currency units until euro notes and coins are introduced. Cash dispensers will be gradually adapted to euros as soon as banknotes are issued. The Helsinki stock exchange will change over completely to the euro on 1 January 1999. Payments for

transactions will be carried out in the currency selected by the client. Insurance companies will not change over to the euro until the beginning of 2002 because most of the payments made involve individual withdrawals, but premiums may be paid in euros as from January 1999.

Enterprises

Enterprises will decide for themselves when to change over to the euro during the transition period, but it is recommended that they prepare right away for the changeover and choose the same currency unit for both the balance sheet and capital accounts. A recent study showed that 60% of enterprises had already taken the necessary measures to ensure a smooth transition to the euro. SMEs should make the changeover at a later date. The retail trades will use markkas during the transition period but will display dual prices for several months before notes and coins are issued. Enterprises may choose to declare and pay their taxes in either euros or markkas at their discretion as from 1999.

Citizens

There will be a seamless changeover for citizens. Continuity of contracts is guaranteed and the various commitments towards and by banks will not be affected. Clients may choose their reference unit during the transition phase. Withdrawals and various social security services will continue to be paid in markkas until notes and coins are issued for both the private sector and public administrations. Citizens will continue to pay their taxes in markkas except if their salaries are paid in euros.

The public sector

The changeover to the euro for both citizens and enterprises will determine the timetable for public administrations, with the option of using the euro or the markka. Public sector budgeting will continue to use the markka for drawing up budgets throughout the transition period. Public accounting will change over to the euro as from the year 2002. This rule also applies to local administrations. Conversely, government loans and reserves will be denominated in euros as from 1 January 1999. ■

On course for

Jean-Claude Juncker,
Prime Minister and
Finance Minister of
Luxembourg

On course for 1999! (< page 1)



Inf€ *Do you believe that preparatory work on the euro at European Union level is sufficiently advanced at the European institutions and in Member States?*

On this subject, I would like to point out that the measures to be taken in preparation for the changeover to the euro fall mainly within the remit of national institutions, since it is only they which are in a position to take proper account of the specific conditions and characteristics of their own economic and financial environments in order to ensure the success of the operation.

At European Union level, information and awareness-raising campaigns amongst economic and financial players and public administrations, which began with Commission round tables and were followed up with national round tables, are continuing apace.

With the final details to be worked out under the Luxembourg presidency, we expect to reach a very advanced state of preparation for the future organisation of the European Central Bank during the course of next year.

Inf€ *In your opinion, what advantages will the euro bring to the management of public finances and budgets?*

Following the introduction of the euro, the immediate advantages will be felt most in sectors which previously had to concentrate a significant proportion of their efforts on countering the effects of exchange rate fluctuations between the various European currencies.

As for managing public finances and budgets in the different Member States participating in EMU, it appears that calculating the economic, financial and monetary performance of these Member States will become far more transparent, in that comparisons will be based on fixed elements rather than on the variable national currency exchange rates.

In addition, the rules of sound financial management associated with the introduction of the euro will ensure that public finances remain healthy and stable, and will establish common monitoring rules whilst prohibiting Member States from using monetary forms of financing.

Inf€ *Luxemburgers are already strong supporters of the euro. What arguments would you use to win over European citizens, in your own country and elsewhere, who have doubts about it?*

First let me slightly qualify your statement that Luxemburgers are "strong supporters" of the euro. I do not believe that it is possible to compare the attitude of Luxemburgers' towards the single currency with the attitudes of citizens from other Member States.

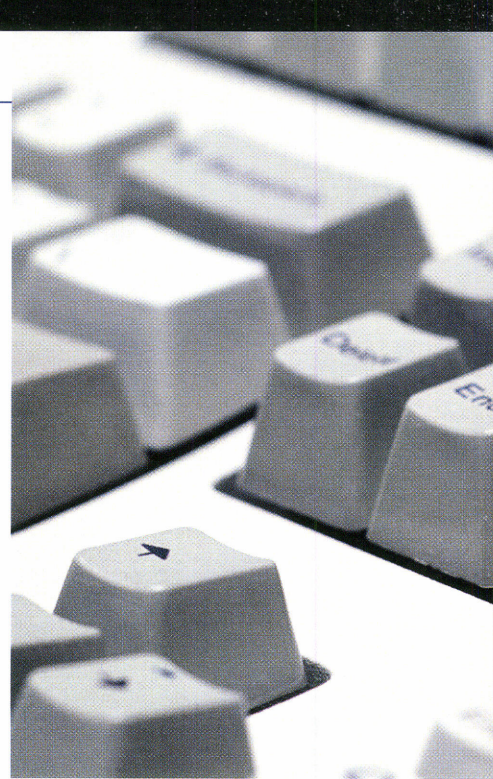
Luxembourg has never had its own national monetary policy but nevertheless, it has had good, and I would even go so far as to say very good, experience of a monetary union with Belgium since 1919. This largely explains why Luxemburgers do not consider the advent of the euro as a major change; on the contrary, for us it is our only chance of becoming co-owners of one of the strongest currencies in the world, a privilege we have never enjoyed since the birth of our nation.

As for the other countries, I am absolutely convinced that the key to public acceptance of the euro lies in the vigour with which politicians and economic players come out in favour of Economic and Monetary Union. There is a whole arsenal of arguments at their disposal to support them.

Those who wish to take advantage of the legitimate doubts amongst our peoples as they face this admittedly momentous change should know that in doing so they carry a very heavy responsibility. ■

The euro computing challenge

Adapting computer systems to the euro presents a real challenge to business and administrations. The European Commission is actively leading the way.



WITH the changeover to the euro on 1 January 1999, enterprises face a triple challenge. A technical challenge: most accounting and management software is affected. An economic challenge: no sector and no enterprise will be spared, no matter what size it may be. And finally a world challenge: not only Europeans are affected; their trading partners will also have to adapt to the new situation.

The turn of the century will be a busy time for the computing world which has to simultaneously cope with two major changes. The first is the transition to the year 2000. There are already affordable programmes, services and technologies on the market to help businesses to adapt their computer systems.

The second change is the introduction of the single currency - the euro. This will involve changing all budgetary, accounting and fiscal systems in companies and, above all, public administrations. The latter have to serve as an example and provide support, anticipating and testing their own systems well in advance in order to be up and running smoothly on the first day. Salaries, prices, social security contributions, VAT payments, calculating charges, benefits and dividends... there is not a single aspect of management which will not have to be closely examined.

Technically, the operation is similar to the job to be carried out for the new millennium with the analysis of millions of lines of programme code, to identify those that need to be changed. This requires special diagnostic programmes capable of detecting and selecting the parts of the programme that need to be modified. Work is in progress to create such instruments, notably as part of the European research programme ESPRIT (European Strategic Programme for Research in Information Technology). This has resulted in the development of efficient tools which are already on the market to seek out, identify, modify and test the data in question. According to the experts, the systematic and careful use of special tools will not only help entrepreneurs in

this task but also reduce costs by around 30%. The main challenge remains the efficient use of skilled human resources given that salary costs will probably represent 50% of the overall effort.

A helping hand from the Commission

The European Commission is involved in this process: firstly, by contributing to research programmes within the framework of Esprit, and to the development of methodological tools and essential technologies; secondly, by organising meetings with technology suppliers in order to jointly identify and define the products and services which they will be in a position to supply; finally, by bringing together major users, such as governments, with suppliers to discuss their specific needs and problems in working groups.

Public administrations and large enterprises are generally already well on their way to the euro, investing substantial financial and human resources in preparations. This leaves small and medium-sized enterprises, which are more flexible and capable of taking rapid decisions, but which are also more vulnerable and have fewer resources at their disposal. The Commission is preparing a special procedure for them, essentially comprising a range of tools combined with management advice. On 2 October 1996, the Commission held a computing conference for bringing together computer service and engineering companies and SMEs in order to address the needs and availability of services and technologies.

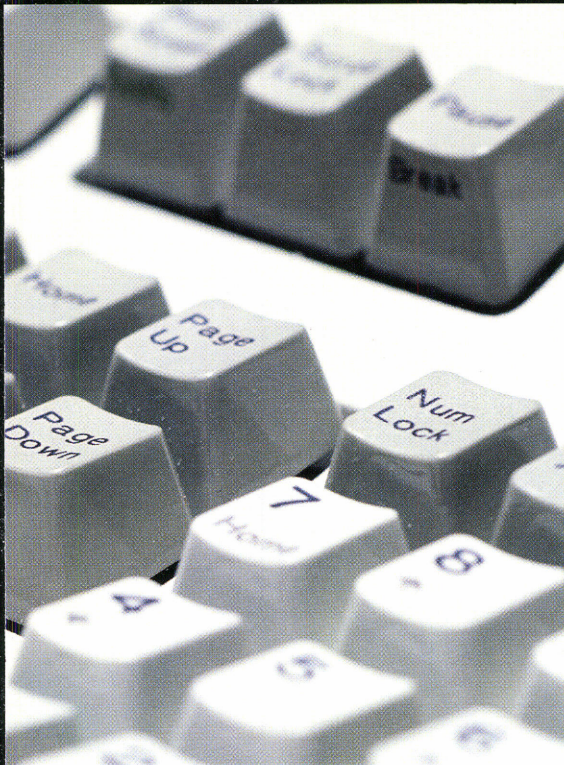
The final strand of Community action is public information. The Commission believes that it is vital to make the business world aware of the real issues at stake, as well as the timetable. An information campaign has therefore been launched, targeted at all parties concerned, both corporate and individual, whilst the Commission maintains close contacts with the business world, in order to promote the exchange of information, as well as with national coordinators who disseminate information at local level. ■

ACCOUNTING AND THE EURO

This 30-page document was drawn up under the direction of DG XV which is also in charge of its distribution. It is available in all European Union languages.

It may be ordered from DG XV: DG XVD3, C100 03/133, European Commission, 200 rue de la loi, B1049 Brussels.

It may also be downloaded from the Commission Web site: <http://europa.eu.int/en/comm/dg15/dg15home.html>



IT and the euro — a challenge for companies and public administrations

Hans-Joachim Würth,
EMU programme director at SAP AG
outlines the issues presented
by the transitional phase.

THERE are three main aspects to consider for the transitional phase between 1999 and 2002: the system-related requirements for respecting the legal requirements governing the use of the euro, the system-related requirements for processing business transactions at a time when both the euro and the national currency units will be used, and the technical requirements for the process of changing to the new currency unit. The IT issue is urgent because implementing the requirements will need a considerable amount of time.

Facilitating legal requirements

The Article 235 Regulation sets out how conversion between denominations will be made and how rounding procedures should be applied. Transactions in either direction must be based on the same official exchange rate, but inverse exchange rates (e.g. 1 mark = 0.x euro) are not permitted. Participating currency units will also have to be exchanged via the euro and the software will have to ensure that the correct rates are used. This means that each system that carries out any form of currency processing must be reviewed. Currency conversion algorithm routines have to be modified to meet the euro regulations.

Processing business transactions

A company must be capable of processing purchase orders, sales orders, and invoices in euros as early as January 1, 1999. In some of the participating countries (such as Austria and Germany) companies which switch their accounts to the euro at an early date would need to convert tax returns back to the national currency denomination if the local tax authorities were still working with the national currency.

Multicurrency capability of systems is a prerequisite for processing business processes in the transitional phase. Systems have to differentiate between the local currency unit (account currency) and transaction currency unit (entry currency). If, during the transitional phase, companies use euros for order, invoice, payment, and order transactions, the application systems can process such transactions using euros as the transaction currency unit, even if the local currency unit is different, in the same way as they already process national and foreign currency transactions.

Converting local currency units

Over the years, business IT infrastructures have become increasingly elaborate, with PCs working alongside mainframes, basic PC programs jostling with more sophisticated client/server applications, and

standard software from a range of vendors operating in conjunction with in-house developments within a group-wide network. On top of this, interchange of electronic data with banks and business partners must be considered; this is more and more being handled by the Internet.

What is needed is an integrated solution that embraces all software components in order to keep down the number of changes to be made to existing programs and interfaces. It might seem a good idea to keep all accounts in both currency units for a transitional period but the benefits of this method are debatable in any case. You may end up with two sets of balanced books, but the two would not relate to each other on a one-on-one basis. You would therefore have to specify which currency unit you would actually work with and which would have a shadow function.

At first glance, it would seem most logical to change the account currency at year-end, to offer a clean break between, for example, the mark one year and the euro the next. Once the old year has been closed, all the balances to be carried forward would just need to be converted. Special attention would only have to be given to the items still open at year-end and long-term forecasts. A few items would also have to be modified, for example, for comparing different years. For small businesses with smaller amounts of data, this is probably the best solution.

But bigger companies need to consider whether all their programs enable them to specify what currency unit they want each year's accounts to be transacted in. Not many are in this position. Most businesses will therefore have to reckon with making large numbers of changes, with all the overhead and risk this entails. For them, the alternative would be to convert the entire database on a given day.

General considerations

One challenge for business and retail is the different legal and fiscal regulations and different changeover schedules in the Member States. If delays are to be avoided, a reliable timetable is badly needed so that everyone knows what will be the requirements at which date. National decisions on accounting and tax issues have to be made early on so as to permit proper and systematic preparation. For companies operating on a pan-European basis, it would be extremely helpful to have single banking products and payment systems, for example, available in the various participating countries. ■

Peter Coldrick,
confederation secretary and
an economist at
the European Trade Union Confederation

European trade unions say "Yes" to the euro



Inf€ *What does the euro represent for the world of work: an opportunity or a threat?*

It is not the single currency — the euro — which is going to resolve the problems of European economic deficits or unemployment but the economic and monetary union dynamics which underpin it, and the broad movement towards the convergence of national economies, stability and growth. It is these three factors, more than the mythical reduction of deficits (3% of GDP) which will have a favourable long-term effect on employment. The trade unions do not believe that economic and monetary union is synonymous with unemployment; on the contrary we are in favour not only of EMU but also of its launch on the planned date. Any delay, any prevarication, would now be very detrimental in terms of speculation, monetary turbulence and uncertainty, and would be more harmful to all of our economies, and especially to employment, than a clear-cut situation, however difficult it might be.

Indeed, we refuse to accept a narrow interpretation of the "Maastricht criteria". The important thing is not a deficit of 3.3%, or even 3.7%, but the effective convergence of economies. Neither do we accept a strictly budgetary and financial approach to the issue, expressed only in terms of deficits or inflation. Similarly, 1 January 1999 should not be considered as a date when everything grinds to a halt: the 3% target and this date are just a starting point. It is vital to prepare for the aftermath of EMU. There can be no relaxation of effort just because we achieve the infamous 3% on the planned date; we cannot then then stand back and watch while national economies take off in all directions. We believe that these criteria should be seen in terms of trends and not interpreted mechanically. These trends should be maintained after 1999. It does no good to prop ourselves up with figures; when all is said and done, that artificially raises pressures. What is happening in France and Germany is a good illustration. This has a negative effect on public opinion. As the date on which the first wave of countries to be admitted approaches, this psychological factor takes on increasing importance. It is the task of politicians to keep the general public better informed. In this context, the stability and growth pact is essential, as is the fact that an employment component has finally been incorporated. This obliges governments to integrate

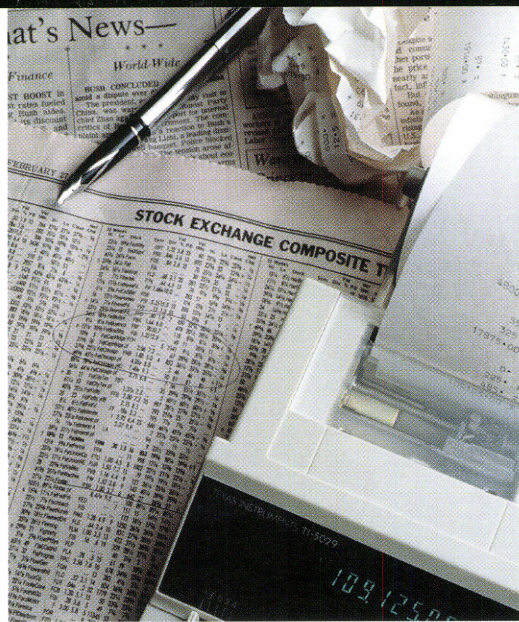
positive and active growth and employment policies other than those which only perceive EMU in terms of restrictions on public expenditure. The general public must be persuaded that EMU will represent a zone of stability, growth and employment. The euro is also, perhaps above all, a matter of confidence. For this reason there is no question of delaying its introduction. Any hesitation would be a very bad omen. It could create a further crisis of confidence, which would hardly be conducive to new investment. It would also certainly have a negative effect on employment.

Inf€ *Have the trade unions carried out a detailed assessment of the impact of the euro on employment?*

We have not carried out a specific sector-by-sector analysis. In all likelihood the restructuring required in various sectors will have repercussions on employment. However, we have conducted a macro-economic analysis. From this point of view, EMU can only have a positive effect on employment over the long term. Moreover, we are actively preparing for the Employment summit next autumn which was agreed in the wake of the European Council meeting in Amsterdam. This is where we intend to define our position and perhaps draw up concrete proposals to be presented to the Luxembourg presidency this autumn. In this respect it is important to fully implement the new heading of "Employment" chapter included in the revised Treaty, and the participation of the social partners is essential in this field.

Inf€ *What are the trade unions' concerns over the introduction of the euro?*

Apart from the general economic and political issues referred to above, the questions specific to the euro are essentially technical and practical in nature. In the social sector, they relate in particular to conversion rates, which concern all fields and sectors, from salaries to metro tickets. We must ensure that such conversions are fair and that they are calculated on the same basis for everyone. The same applies to training workers directly or not so directly affected, organising such training and deciding who is going to pay. All of these practical questions are still pending and under discussion. However, one thing is certain: it is vital to involve the social partners — both professional organisations and trade unions — in the debate. ■



Financial markets: a smooth passage

A group of experts set up by the Commission and chaired by Alberto Giovannini has drawn up its recommendations on the changeover for financial markets.

THE aim is to create a euro stock market which is as large, liquid and transparent as possible by defining a set of common rules. The Commission will base its actions on the practical solutions recommended by a group of experts for each sector of the market. Legal certainty and the reliability of financial calculations will make it possible to effect the changeover in capital markets under conditions of total legal certainty for traders and their clients.

Bonds

Immediately the euro is introduced on 1 January 1999, there will only be one single currency for all participating countries. As from this moment, any new negotiable public debt will have to be issued in euros. For existing public debt, the group of experts believes that it is important to re-denominate it in euros in order to increase liquidity and enhance the credibility of the process of transition to the euro.

The experts advise using a "bottom-up" technique for re-denominating debt. This system, based on fixed conversion rates rounded to the second decimal place, guarantees the equivalence of assets held by the central depository. This operation will have no effect on the initial agreements that apply to such securities. Indeed, the fundamental principle of continuity of contracts guarantees the application of the original rules and agreements.

In order to reinforce the efficiency and transparency of markets it is desirable to harmonise the rules. Such harmonisation would avoid the risk of errors or litigation. The markets should decide for themselves what strategy to adopt, using wherever possible the current international standard.

The recommended way of determining the number of days to be taken into account for interest calculations is the "actual number/actual number" method which is the most accurate way of measuring accumulated interest on bonds. In addition, this would ensure coherence with the method adopted by the American treasury bond market, and would facilitate harmonisation with the Japanese securities market.

As for coupons, we should retain the choice between annual payment, as in many European countries, and half-yearly payment as in major bond markets such as Great Britain and Italy. The experts also recommend a standard definition in line with the number of days the TARGET system operates, which should

in principle be every day of the year with the exception of 25 December and 1 January.

It is also necessary to ensure continuity of reference values with national bases (Pibor, Fibor, etc.) and preferably a new European base (Euribor). It would be desirable to publish rate indicators for the euro zone or to have harmonised criteria for calculating regional indicators. With regard to rating, the transition to the euro raises the question of the supra-nationality of the issuing currency for sovereign issuers. However, the main point is that the entry of a country requires greater budgetary discipline.

Shares

The euro will have less impact on this market. Shares will be traded and quoted in euros as from 1 January 1999 on stock markets in countries participating in EMU. Intermediaries will have to make the necessary conversions in order to send their clients statements in the national currency of their choice. Compared with bonds, the need to re-denominate is less marked because the reference currency for the company capital does not influence its financial value or its negotiability. However, it would be useful for participating countries to issue shares with no nominal value. This would greatly facilitate the changeover to the euro.

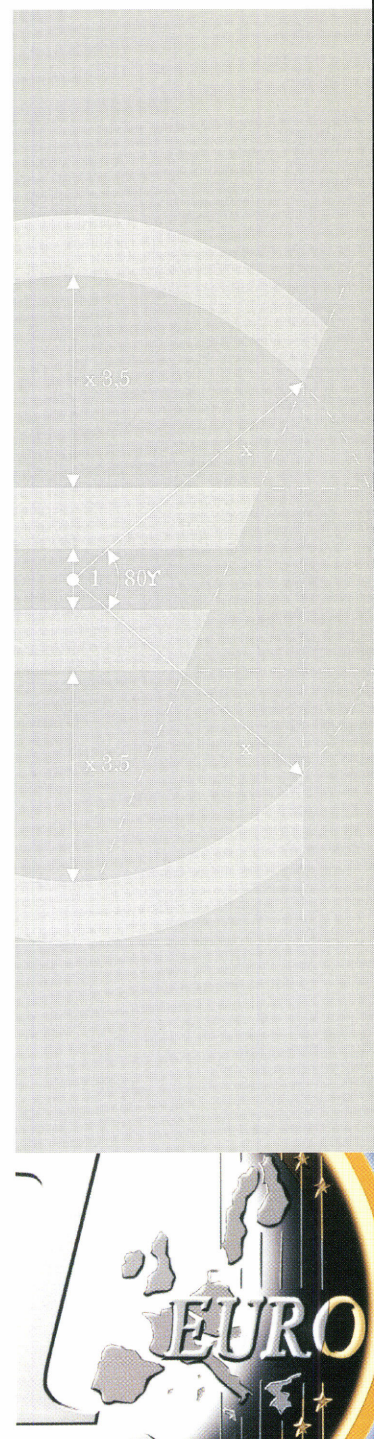
Derivatives

The derivatives market, which is very active in Europe, is extremely large and the questions raised by the changeover to the euro are the same as those affecting the markets which underpin them. Under no circumstances will the transition to the euro shake the confidence of traders given that the principle of continuity of contracts is guaranteed. Nevertheless, it is important that the markets ensure transparency so that any amendments made to underlying contracts following conversion, and any modification of wording or the adoption of new reference indices, are accurately reflected in transactions involving derivative products.

The European Commission and the European Monetary Institute are pursuing their discussions on other subjects, including the money markets and currency markets. ■

References:

The impact of the introduction of the euro on capital markets
COM (97) 337 final - ISBN 92-78-22411-1





Banking and conversion charges

Following the Round Table in Brussels in May on practical aspects of the changeover to the euro, Commission services have decided to set up four expert consultative groups to consider some of the technical issues on which further work is required.

THE plan is that these groups will report to the Commission's Inter-Service Group before Christmas. The Commission is then planning to hold another Round Table in the early part of next year, and hopes to be able to make an announcement about decisions in this area at the time that the participating Member States are chosen next spring. One of the groups will be considering banking and conversion charges, a second will advise on the dual display of prices and other monetary amounts, a third on helping consumers to adjust to the euro, a fourth on the role of the education system, and a fifth on small enterprises and the euro.

The terms of reference of the Banking and Conversion Charges Group

The conversion process into the euro from the national currencies of participating Member States at the conversion rates from 1 January 1999 onwards is at the heart of the single currency project. The terms of reference of the Group are to examine the approach which banks and other financial institutions propose to take in charging for conversion, to consider the need for legislation or voluntary codes of practice, and to analyse how the transparency of any conversion charges is to be achieved.

The organisation of the Group

The Banking and Conversion Charges Group organised by DGXV will consist of ten recognised experts from eight different Member States, drawn from banking and payment systems, and from user groups, including consumers, small and medium-sized enterprises and large firms. They will all be participating in a personal capacity rather than as representatives of their organisations. The European Monetary Institute has also agreed to participate. The Group will be meeting on a fortnightly basis in Brussels in the autumn, and a number of European market associations with links to banks, consumers and enterprises have been asked for written contributions to the work of the Group.

The main issues for the Group to consider

The overall costs to banks of the changeover to the euro, of which conversion is one, have been estimated by banks to be in the region of 2% of operating costs per annum. These costs will have to be assessed and to be met in one way or another. The Group will establish as clearly as it can how banks are proposing to approach the question of charging for making conversions, and whether this approach meets the expectations of consumers and enterprises.

The euro Regulations

The Group will need to take the euro Regulations as the starting point in tackling its terms of reference. Under the 109L(4) Regulation, the conversion process consists of the conversion of book money, in the form of accounts and payments, and the exchange of banknotes and coin. Book money is converted during or at the end of the transitional period (from 1 January 1999 to 31 December 2001). National banknotes and coins are exchanged for euro banknotes and coins during the final period. Euro banknotes and coins are due to be issued not later than 1 January 2002 in accordance with the Madrid scenario, and the final period is due to end not later than 30 June 2002.

Accounts and payments

The Group will be assessing the extent to which banks intend to charge customers for the conversion of their accounts during the transitional period, and it will be considering the relationship between banks and customers so as to ensure that the interests of customers are properly protected. Under the 109L(4) Regulation, all book money not converted voluntarily during the transitional period will in effect be converted compulsorily at the end of the transitional period. The Group will be considering whether the compulsory nature of the conversion process at this point means that banks cannot charge, or whether new rules are desirable to remove any doubt.



One of the main differences between accounts and payments under the euro Regulations is that the conversion of accounts is subject to agreement between banks and customers, whereas the 109L(4) Regulation imposes an obligation on banks to convert incoming payments. The Group will be considering the implications of this obligation for any conversion charges on payments. It will also be looking at cheques, payment cards, credit transfers and payments across the Internet.

Banknotes and coin

Euro notes and coins will be introduced at the same date, but there will be a period, which may differ from one Member State to another, during which the national banknotes and coins of a participating Member State and euro banknotes and coins will both be legal tender in that Member State. The Group will establish the implication of existing legal tender laws for the exchange of legal tender and whether any specific rules are required.

Transparency

Finally, the Group will be considering how best to make the conversion process transparent for consumers. Transparency is important, both to demonstrate that the conversion rates have been applied correctly, and to identify any charges clearly. The Group will examine whether existing transparency rules are sufficient, or new ones are required, and if so what form they should take.

Issues to be addressed by the other three groups include:

- **dual displays - how far dual displays can help people to adjust to the euro;** what are the technical issues and cost implications for varieties of equipment such as cash registers, petrol pumps and electronic shelf pricing; how can graphic displays be used to make clear and easy differentiation between national currency and euro prices?
- **helping citizens adjust to prices and values in the euro:** what will be the main difficulties in adjusting to a new price structure? how will they affect different social groups? What techniques could be more effective in helping people to adjust? What instruments might prove more effective?
- **education and training:** how could the various levels of the educational system pass on information about the euro? What education and information instruments are likely to be more effective? What co-ordination would be needed at the EU level? How to maximise the potential spill-over benefits of children helping their parents to learn euro values and prices? ■





About InfEuro

InfEuro is published six times a year in the 11 EU official languages by the European Commission's programme "Euro: one currency for Europe".

Production and layout:
De Visu Digital Document
Design, Brussels

Coordinator: Teamnet sprl,
assisted by Juan Arcas

Editorial Manager:
Michel Visart, Brussels

Translations: Exacom, Brussels

and the editorial collaboration
of: ECO-European
Communications, Brussels;
Anne-Michèle Eckstein,
Brussels.

Neither the European
Commission nor any person
acting on behalf of the
Commission is responsible
for the use which might
be made of the information
contained in this publication.

The EMU Changeover Timetable

Timing	Actions	Responsibility
End March 1998	<ul style="list-style-type: none"> Two reports to the Council on how each Member State has respected the obligations on EMU laid down by the Treaty 	<ul style="list-style-type: none"> Commission, EMI*
End April/Beginning May 1998	<ul style="list-style-type: none"> decision on participating Member States pre-announcement of bilateral exchange rates between participating currencies 	<ul style="list-style-type: none"> European Council**
During 1998	<ul style="list-style-type: none"> creation of the ECB* and appointment of its executive board start production of euro banknotes and coins adoption of necessary secondary legislation 	<ul style="list-style-type: none"> Council (Member States participating in EMU) Council and Member States Commission proposes, Council decides
January 1 1999	<ul style="list-style-type: none"> conversion rates are irrevocably fixed and legislation comes into force, notably on the legal status of the euro definition and execution of the single monetary policy in euro foreign exchange operations in euro new public debt issues in euro 	<ul style="list-style-type: none"> ESCB* ESCB* Member States, European Investment Bank, Commission, regions and local authorities
January 1 1999 to January 1 2002 (at the latest)	<ul style="list-style-type: none"> changeover to the euro by the banking and finance industry assist the whole economy in an orderly changeover (IT, accounting...) 	<ul style="list-style-type: none"> Commission and Member States
January 1 2002 (at the latest)	<ul style="list-style-type: none"> start circulation of euro banknotes start circulation of euro coins complete changeover to the euro of public administrations 	<ul style="list-style-type: none"> ESCB* Member States Member States
July 1 2002 at the latest	<ul style="list-style-type: none"> cancel the legal tender status of national banknotes and coins 	<ul style="list-style-type: none"> Member States, ESCB*

*ECB- European Central Bank — ESCB- European System of Central Banks — EMI- European Monetary Institute—precursor of ECB

**on a recommendation from the Council based on a report and recommendation from the Commission and a report from the EMI



OFFICE FOR OFFICIAL PUBLICATIONS
OF THE EUROPEAN COMMUNITIES

L-2985 Luxembourg