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REPORT FROM THE COMMISSION

Twelfth Report on the practical preparations for the future enlargement of the euro area

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

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1. INTRODUCTION

Since the adoption of the euro by Estonia on 1 January 2011, the euro area consists of seventeen EU Member States. Among the remaining eleven Member States, nine Member States are expected to adopt the euro once the necessary conditions are fulfilled. Denmark and the United Kingdom have a special "opt-out"-status and are not committed to adopt the euro.

This report assesses the state of play of the practical preparations for introducing the euro in Latvia and evaluates the progress made in preparing the changeover related communication campaign. Following the Council decision from 9 July 2013 concluding that the necessary conditions for euro adoption are fulfilled, Latvia will adopt the euro on 1 January 2014 ("€ day"). The conversion rate between the Latvian lats and the euro has been irrevocably fixed at 0.702804 Latvian lats to one euro.

2. STATE OF PLAY OF THE PREPARATIONS FOR THE CHANGEOVER IN LATVIA

Latvia will be the sixth of the group of Member States which joined the EU in 2004 to adopt the euro. Latvia's original target date of 1 January 2008 foreseen in the Action Plan for Implementation of the Single European Currency of 1 November 2005 was subsequently reconsidered. The target date of 1 January 2014 has been determined by the Latvian government with Cabinet of Ministers' Order No 165 of 24 March 2010. Latvia's National Euro Changeover Plan was approved by the Latvian Cabinet of Ministers on 19 September 2012 and last updated on 4 April 2013. The National Euro Changeover Plan is supplemented by a detailed Action Plan for the Introduction of the Single European Currency in Latvia. The Latvian authorities have done a thorough and systematic effort over the last months with a view to ensuring a smooth changeover.

2.1. Organisation of the changeover, adaptation of the legal system and preparations of the public sector

The practical preparations for the adoption of the euro in Latvia are coordinated by a Steering Committee, chaired by the State Secretary of the Ministry of Finance. The Steering Committee is supervised by the Coordinating Council for the Changeover to the Single European Currency. Preparatory work in specific areas is done at the level of five working groups, involving representatives of both public and private sector (State Administration Working Group, Cash and Payment Systems Working Group, Non-financial Corporation and Consumers Working Group, Financial System Working Group and Public Awareness and Communications Working Group). The working groups are coordinated by a euro project manager who reports to the Steering Committee. Like its neighbour Estonia, Latvia has refrained from appointing a specific 'Ms/Mr Euro' acting as the unique monitoring point for

all national euro changeover preparations. However, a Euro Bureau has been established at the Ministry of Finance which is the main communication point with the public.

In January 2013, the Latvian Parliament has adopted the 'Law on the Procedure for the Introduction of the Euro', an "umbrella law" providing the basic principles of the changeover (e.g. the rounding principles applicable to conversion, the dual circulation period, the procedures for the changeover of cash and the withdrawal of lats cash, the rules for the conversion of prices and for the dual display of prices etc.). Moreover, the Law on the Procedure for the Introduction of the Euro sets out the schedule for the adjustment of legal acts which have to be amended due to the introduction of the euro. The Law on the Bank of Latvia was also amended to ensure compatibility with the Treaty on the Functioning of the European Union and the Statutes of the ESCB and of the ECB.

The preparations of the public sector for the changeover are well underway. Given that there is no dedicated 'Ms/Mr Euro' acting as a voice and face of the euro changeover, it is of particular importance to ensure the availability of changeover coordinator(-s) at all times around 1 January 2014 with a view to allowing quick answers in case of potential problems.

2.2. Preparations of the financial and banking sector

Latvia intends to use a "big bang" changeover scenario¹ and a dual circulation period of two weeks.

Lats coins have a relatively high purchasing power and are intensely used by the public for day-to-day payments. In contrast to their neighbours in Estonia, Latvians rely less on electronic means of payment (some 15% of the Latvian population have not had a bank account by April 2013). In total, 51 million lats banknotes and 482 million lats coins are currently in circulation (data as of 1 June 2013). Some 293 million lats coins will have to be withdrawn. The parallel structure of lats coins denomination and euro coins denomination will facilitate the handling of euro coins in Latvia. However, since one lats is worth more than one euro, amounts will "increase" due to conversion. In the run up to the changeover, it is very important to explain this effect to citizens and try to dispel their fears of inflation.

Since Latvia does not have its own mint, it organised a competition for the procurement of euro coins. The 400 million Latvian euro coins to be minted will be produced by the Staatliche Münzen Baden-Württemberg (Stuttgart, Germany). The design of the national sides of Latvian euro coins was selected via an all-Latvian public competition in 2004. The one- and two-euro coins will show the folk maiden, whereas the 50-, 20- and 10-euro cent coins will feature the great coat of arms of Latvia and the 5-, 2- and 1-euro cent coins the small coat of arms of Latvia. Euro banknotes will be borrowed from the Eurosystem's stocks. The Bank of Latvia has ordered 110 million euro banknotes of various denominations for the changeover.

The start of the frontloading to credit institutions is scheduled for 1 November 2013; the sub-frontloading to commercial banks' major clients will start on 10 December 2013. According to the first estimates, frontloading and sub-frontloading will amount to some 25 million euro banknotes and some 192 million euro coins, each in various denominations. With a view to

¹ The euro banknotes and coins will be introduced on the same day on which the euro becomes Latvia's currency. The big-bang scenario has been used in all Member States which joined the euro area after 2002.

the risk of bad weather conditions around €day in Latvia, the frontloading and sub-frontloading volumes should be planned very carefully. Against the background of the increased security risk, a security action plan has been developed providing for measures enhancing the safety of cash transports by the Cash-in-transit (CIT) sector during the changeover process.

50% of the coins to be frontloaded will be provided in starter kits for citizens (around 800,000 kits for some 816,000 households) and for retailers (some 70,000 kits). It is planned that the standardised starter kits for citizens will contain 14.23 EUR and for retailers 200 EUR each. The size of the kits for retailers seems rather high for smaller enterprises. It is recommended either to provide significantly smaller kits or to allow retailers to order smaller amounts of coins to be obtained in bank branches in the afternoon of €day. The start of the sale of the starter kits for citizens is scheduled for 10 December 2013. The kits will be sold in branches of the Bank of Latvia, credit institutions and post offices. Furthermore, there will be specific kits available for collectors as of €day (in total 35,000 kits).

Various measures have been foreseen with a view to reducing the amounts of lats to be physically exchanged, such as unrestricted coin exchange by the Bank of Latvia as of October 2013 and the gradual decrease of the number of high denomination lats banknotes in circulation well before €day. Moreover, coins may be deposited with the largest banks without limit and free of charge from October 2013. The commercial banks and post offices will increase their cash storage facilities with a view to the exceptionally high amounts of cash to be handled in the changeover period.

Unlimited cash exchanges will be available in commercial banks for six months starting from €day and in 302 post offices for three months starting on €day (subject to extension up to three more months). In order not to undermine communication efforts on the new conversion rate, banks and foreign exchange offices should be obliged to use the official conversion rate from its determination to €day and display any service fees separately. The Bank of Latvia will change unlimited amounts of lats into euro for an unlimited period of time and free of charge.

987 out of 1,105 automatic teller machines (ATMs) in Latvia will distribute euro banknotes as of the first hour of 1 January 2014, whereas it has not been ensured yet that the remaining 118 ATMs will be available for withdrawals in euro before 2 January 2014. Against the background of the crucial role of ATM availability for a smooth start of the cash changeover, it should be ensured that all ATMs are fully functional in euro on 1 January 2014. ATMs which may not be adapted on time should be closed. Considering that retailers will have to give change exclusively in euro as of €day, it should be considered to refrain temporarily from introducing banknotes with denominations higher than 50 EUR in ATMs. Banks should also refrain from introducing large denominations in the weeks before and after the changeover, be it lats or euro, since the presence of high denominations makes it more difficult for the retail sector to give the change in euro. The adjustments of the point-of-sale (POS) terminals were already launched by the responsible commercial banks and First Data Latvia with a view to switching instantaneously to euro on 1 January 2014. Consumers should be encouraged to use electronic payments more often during the first days after €day. 99.3% of POS are already Single Euro Payments Area (SEPA) compliant.

The Latvian banking sector comprises 406 bank branches, out of which 339 provide cash services. Commercial banks intend to reinforce the staff in branches handling cash operations. Counting and storage facilities in the branches will be adjusted. Services to retail clients will

be provided separately from private client services and cash collection services will be offered to retailers and other business clients. Some commercial banks will extend their opening hours at the end of the year. Whereas the Bank of Latvia envisages providing cash exchange operations for the general public on 1 January 2014, overall, banks and post offices do not intend to open branches on €day. This should be reconsidered with a view to facilitating a smooth start of the cash changeover and to allow small retailers who have not participated in the sub-frontloading to get the cash they need. Branches of banks and post offices should be opened at least on the afternoon of 1 January 2014.

Special training of banks' staff for the changeover will be provided as of mid-2013. The adjustments of banks' IT systems are on-going; the final testing is scheduled for late November/early December 2013. In order to facilitate the logistics of the withdrawal of lats coins, CIT companies and commercial banks will be provided with standard mobile containers to be used for coin collecting, storage and transportation. Commercial banks' accounts with the Bank of Latvia will be credited on the same day when coins are deposited, with any corrections being made after the counting of the coins.

To ensure a smooth changeover, the euro cash supply of smaller retailers should be ensured either by providing extra small-sized coin kits or specific order facilities.

As of July 2013 until 1 January 2014, banks and foreign exchange offices should be asked to use the official conversion rate for foreign exchange (FX) transactions in euro, with a separate invoicing of possible service fees.

It is crucial that all ATMs will be available for euro withdrawal from 1 January 2014. ATMs which, for technical reasons, cannot be adapted on time should be closed. In order to prevent retailers from running out of change because of customers paying with high denomination banknotes, ATMs should not be loaded with banknotes denominated higher than 50 EUR in the changeover period and the banks should refrain from distributing high denominations at the counter.

Consumers should be encouraged to use electronic payments more often during the first days after €day.

2.3. Preventing abusive practices and erroneous perception of the evolution of prices by the citizens

Pursuant to the Law on the Procedure for the Introduction of the Euro, the period of dual display of prices in both lats and euro will start three months before €day, i.e. on 1 October 2013, unless the official determination of the conversion rate by the Council of the European Union takes place after that date and will last until six months after €day. With a view to the experience made in previous changeovers, it is recommended to make sure by regulatory means that dual display of prices ends by 1 January 2015 and ensure that this end date is clearly communicated to the public, so that it makes good use of the period of dual display of prices to learn the new scale of value. This will make it easier for citizens to get fully accustomed to the new currency.

Details on the dual display of prices are laid down in the Regulation No. 178 "Procedure for Displaying Prices of Goods and Services" of 18 May 1999 as amended on 9 May 2013. Furthermore, the Consumer Rights Protection Centre (CRPC) has developed guidelines on price indication in the dual display period which have been approved on 30 May 2013.

Since January 2013, prices of 120 frequently purchased products and services in the most popular points of sales in the seven biggest cities of Latvia have been monitored by the company "Aptauju centrs". Monitored services include various services which, based on the experience of previous changeovers, are most likely to be affected by changeover related increase of prices such as hairdressers, restaurants and cafés and car repair services. The results of the monitoring are regularly published on the Ministry of Economics' and on the euro changeover website.

The Latvian Ministry of Economics has prepared a "Fair Euro Introducer" campaign. Along the lines of the voluntary initiatives employed successfully in the previous changeovers, the campaign invites businesses (e.g. retailers, financial institutions, internet shops) to commit not to misuse the changeover for their own profit, respect the changeover rules and provide the necessary assistance to their clients. The subscribers will receive a "Fair Euro Introducer" logo demonstrating their participation in the campaign and will be listed on a "white list" available on the Euro Project website. The call for subscriptions has been launched on 12 June 2013. The start of the campaign is scheduled for July 2013, i.e. more than two months before the start of the mandatory dual display of prices. The Latvian authorities aim at a participation rate of at least 70% of the market. It is recommended to target a much wider participation.

Compliance with the requirements for price display and conversion (e.g. rounding rules) during the dual display period and implementation of the Fair Euro Introducer Memorandum will be monitored by the CPRC in cooperation with NGOs protecting consumer rights. Some 38 inspectors will carry out intensified checks of sales points. It is strongly recommended to further increase the number of staff or volunteers available for inspection to ensure a credible and effective price monitoring during the weeks following the adoption of the conversion rate until the end of the period of dual display of prices. Local authorities should be invited to identify volunteers in each city to help conducting a thorough price monitoring. If instructions of CRPC officials are not followed, a fine up to 500 LVL may be imposed. The CPRC will also control the implementation of the "Fair Euro Introducer" Memorandum. Businesses which do not eliminate violations identified by the CRPC, repeatedly contravene against the legal requirements or the Memorandum and/or use unfair commercial practices will be put on a publicly available "black list". A company listed on the "black list" will no longer be eligible for listing on the "white list" and lose the right to use the logo of the Fair Euro Introducer Campaign.

Consumers will be able to submit complaints on violations of price indication rules to the CRPC via a dedicated complaints telephone line, the general euro information hotline, e-mails and letters. In order to fight erroneous perception of the evolution of prices by the citizens, the detected irregularities should be addressed quickly. Suspicious price increases detected by the inspectors as well as those lodged by consumers on the phone line of the CRPC should be properly investigated and corrective action taken as quickly as possible, preferably within a maximum of 48 hours.

The measures foreseen for preventing abusive practices and erroneous perceptions of the evolution of prices by the citizens should be significantly strengthened. Targets for the subscription to the Fair Euro Introducer Campaign should be as ambitious as possible. The number of staff available for the monitoring of dual price display and implementation of the Fair Euro Introducer Memorandum should be further increased via the identification of volunteers in all Latvian cities. The corrective action against businesses not complying with the requirements for price display and conversion (e.g. rounding rules) or not implementing the Fair Euro Introducer Memorandum properly

should be taken immediately, with a view to taking a final decision within a maximum of 48 hours.

2.4. Changeover preparations in rural areas and the preparations of enterprises

As its neighbour Estonia, Latvia has a very low population density when compared to the EU average². The country is composed of 119 local authorities. With a view to the cash oriented payment habits of Latvians, a thorough planning and preparation of the changeover procedures in rural areas will be crucial for a smooth changeover. The facilities for exchanging lats for euro and retrieving legacy cash must be put in place in all areas. Against this background, Latvian authorities have developed practical guidelines for municipalities. Moreover, a check list of euro changeover actions has been created to facilitate monitoring of the progress on the municipal level. To make sure that all local authorities are actually prepared, the implementation of the actions identified on the checklist should be monitored regularly and in a structured way. Regular meetings of local changeover coordinators would provide them with a possibility to exchange experience in preparing for the introduction of the euro. Besides media and internet, the local authorities will often serve as the only information provider in remote areas. They should therefore be thoroughly prepared and trained.

Cash exchange services will not only be offered by the commercial banks (339 branches) but also by 302 post offices of the Latvian Post from 1 January to 31 March 2014 (may be extended by three more months). Coverage of rural areas by bank branches, (mobile) ATMs outside of bank premises and post offices has been monitored closely since the beginning of 2013. If deemed necessary, commercial banks should consider using mobile cash exchange offices in addition to the existing mobile ATMs. The staff of the Latvian Post, notably employees in direct contact with clients, should be properly trained for handling two currencies at the same time and providing information to citizens. Moreover, specific training on security features of euro cash and the prevention of counterfeiting will be required.

The local branches of consumer organisations, agencies and various non-governmental organisations should be actively involved in the preparations in order to increase the local ownership of the changeover.

Most enterprises including supermarket chains which will have an important role in the changeover as "de facto exchange office" have postponed concrete preparations requiring investments in infrastructure and staff until the abrogation of the derogation by the Council of the European Union. It will be essential to ensure in the remaining time until €day that all enterprises, including those who will not actively seek for information, will be adequately prepared. Some monitoring tool (e.g. opinion polls) should be in particular established to help measure the preparedness of small and medium-sized enterprises (SMEs).

The preparations of local authorities for the changeover need to be steered and regularly monitored to make sure that all necessary adjustments are taken care of. The staff of the Latvian Post should be properly trained for its new role during the changeover. Involvement of local branches of consumer organisations, agencies and various non-governmental organisations would increase the local ownership of the changeover. The preparations of enterprises should start with full speed and be supported and monitored by the responsible authorities. Special attention should be paid to small and medium sized enterprises.

² In 2011, Latvia had 33.1 inhabitants per km² compared to an EU average of 116.92 (Source: Eurostat).

2.5. Communication on the euro

The general objective of the euro changeover communication strategy is to ensure that at least 90% of Latvia's population³ are sufficiently informed of the impact and practical changes related to the changeover from lats to euro and also to increase the public support for the introduction of the euro in order to ensure the majority of the Latvian residents support the euro introduction at the actual of date of the changeover. The results will be measured in December 2013. It is especially important for Latvia to pay particular attention to those inhabitants who are more difficult to reach by the media channels, including those living in remote areas and vulnerable groups taking into account the language diversity of its citizens. The European Commission notes substantial progress on communication issues achieved during first half of 2013 and welcomes Latvia's assurances to pay special attention to the information needs of vulnerable groups.

Given the fact that the bulk of the information campaigns has not yet reached the target groups, it is not yet possible to assess their impact. Public opinion poll results, including the recent Eurobarometer (Flash EB 377), however, show that support for the euro is still rather low and fears of abusive practices and loss of purchasing power are clearly present. Public opinion surveys help to measure the success of the changeover communication campaign and identify the need to adjust communication channels or activities.

Latvian authorities should step up efforts in view of providing all Latvian residents with all necessary information and in order to reach as broad public support for the introduction of the euro as possible.

For all communication activities it is vital that the Ministry of Finance ensures fully transparent, non-discriminatory public procurement procedures to be finalised in a timely manner in accordance with the Public Purchasing Law of the Republic of Latvia.

The Commission intends, under a Partnership Agreement, to support the implementation of the communication plans both by in kind contributions and via a grant agreement for up to 50 % of the eligible costs of jointly agreed activities/categories, such as salaries of communication experts, the mass media campaign, public opinion polls, seminars and trainings and information material to all households.

The European Central Bank contributes to the national euro information campaign by organising an exhibition and other public relations events, delivering publications and providing support for the mass media campaign.

A well-established euro changeover website (www.euro.lv), launched already in December 2008, is a main source of information for the public. Up-to-date information on euro changeover preparations is also available on the website of the Ministry of Finance: (<http://www.fm.gov.lv/en/>) and Bank of Latvia (<http://www.bank.lv/eng/main/euro/>).

³ As referred to in the Grant Agreement No. ECFIN – 105-2013 "Communication activities related to euro adoption in Latvia" entered into between the European Commission and the Latvian Ministry of Finance on 30 April 2013.

3. STATE OF PUBLIC OPINION IN THE RECENTLY ACCEDED MEMBER STATES

Since 2004, the European Commission has commissioned 'Eurobarometer' (EB) surveys in the countries which joined the EU in 2004 and 2007 and have yet to adopt the euro, in order to gauge citizens' attitudes towards and knowledge about the introduction of the euro. The spring 2013 'NMS-7'⁴ survey (Flash EB 377) is the sixteenth of its kind. The fieldwork for the survey was carried out in April 2013.

For the purposes of this report, the results of the latest Eurobarometer survey were compared with the results of the previous survey conducted in the Flash EB 349 (field work April 2012).

3.1. Support for euro adoption/perceived consequences

The latest survey confirms the results from previous waves, with a gradual downward trend in the support for euro introduction in recently acceded Member States which have yet to adopt the euro (NMS-7). The majority of respondents in NMS-7 are against the euro introduction in their own country: 51% (+2pp) are against while 45% (-2pp) are in favour. The results for Latvia follow this general trend: 55% (+2pp) are against and 42% (-4pp) in favour of euro introduction.

In terms of perceived consequences of the euro introduction, 45% of respondents (-4pp) see advantages for current EA MS but more negative consequences 54% (+3pp) for their own countries. Nevertheless, 40% (-3pp) see positive consequences.

On a personal level, 50% (-1pp) in NMS-7 expect positive consequences of the introduction of the euro. In Latvia, the trend is more negative - 42% (-3pp) expect positive consequences while 48% (+4pp) negative ones.

There were two questions on possible consequences for prices. Generally asked about possible consequences, 67% (-5pp) expect prices to go up. Nevertheless, a significantly rising number of respondents, 22 % (+13pp), expect the euro to keep prices stable. In Latvia, 75% (+2pp) of respondents expect prices to strongly go up but the number of respondents expecting the euro to keep prices stable, has also risen to 17% (+8pp).

Specifically asked about abusive price setting, 74% (unchanged) of NMS-7 citizens are concerned while 24% (unchanged) respond they are not concerned.

Latvia's citizens' concerns are the highest with 81% (-2pp).

When asked whether the introduction of the euro would mean a loss of control over economic policy, 45% (+2pp) in NMS-7 agree while 49% (-2pp) disagree. Against this trend, a majority of Latvians see loss of control over economic policy as a result of the euro introduction with 63% (+6pp).

⁴ A dedicated Eurobarometer survey provides results for the new Member States which have not yet adopted the euro. The latest survey covered Poland, the Czech Republic, Hungary, Bulgaria, Romania, Latvia and Lithuania. Cyprus, Malta, Slovenia, Slovakia and Estonia were not included anymore as they have already joined the euro area. In total, about 7014 randomly selected citizens have been interviewed.

3.2. Information about the euro

In Latvia, there is a high awareness of the possible euro introduction (80% expect this to happen by 2014). In NMS-7, the sense of being informed about the euro has slightly improved to 41% (+2pp). Latvia scores best in this regard with 50% of citizens feeling informed (+11pp). However, still 48% (-12pp) do not feel well informed.

When asking residents in NMS-7 about the most trusted institutions in their country, Latvia's results are in line with the general tendency to put most trust in the national bank 66% (+1pp), closely followed by the fiscal administration 62% (+9pp). The trust in EU-institutions, while remaining high, has fallen to 60% (-7pp).

When asked about most important elements of a euro changeover communication campaign, the dual display of prices in shops was confirmed as being the most important element from Latvian citizens with 90% (+3pp), followed by a dual price display on bills 86% (+5pp) and on pay slips 77% (+2pp).

For 69% (-1pp) Latvian respondents the value of 1 EUR (exchange rate) is an important issue.

These results clearly show the need to focus the information campaign on informing on practical aspects of the euro changeover in Latvia, to ensure a dual price display and monitor price settings during the changeover period as these are the major concerns of citizens. Adequate information on the euro and the euro changeover should address citizens' fears and scepticism towards the euro.

Latvian authorities should take due account of regular general public opinion polls, with the possibility to adjust the topics and the main messages of the information campaign as appropriate. In order to identify the information needs and assess self-perceived state of preparations of SMEs, Latvian authorities should carry a dedicated survey among SMEs on the practical preparations for the euro changeover. The survey should be carried out in due time to allow for the results to feed into the general information campaign.

4. GENERAL CONCLUSIONS AND WAY FORWARD

Practical preparations in Latvia are overall on a satisfactory path. However, the Commission has identified some areas where further efforts are necessary. The Latvian authorities are in particular advised to further increase the number of staff available for the monitoring of dual price display and implementation of the Fair Euro Introducer Memorandum. The corrective action against businesses not complying with the requirements for price display and conversion (e.g. rounding rules) or not implementing the Fair Euro Introducer Memorandum properly should be taken very quickly, with a view to taking a final decision within a maximum of 48 hours. All ATMs should distribute euros on 1 January 2014.

The European Commission will reassess Latvia's practical preparations for introducing the euro, including its response to the recommendations set out in this Report and the effects of the ongoing information campaign. The Commission's findings will be published in another report (Thirteenth Report on the practical preparations for the future enlargement of the euro area) before the end of this year.