Eesti Pank
Bank of Estonia

Report on the Adoption of the Euro

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SUMMARY

Eesti Pank started to publish a regular report on the adoption of the euro in 2007. The purpose of the report is to share with the public information about Estonia's readiness to change over to the single currency of the European Union – the euro – and introduce the points of view of Eesti Pank in this matter.

By joining the European Union Estonia committed to adopt the European single currency, the euro. However, the introduction of the euro should be interpreted in a broader sense than merely as a commitment. Owing to the Estonian monetary system, the Estonian kroon has been firmly pegged to the euro for a long time. Therefore, the changeover to the euro should be regarded as a natural development for Estonia, given its close integration with the European economy. The euro would contribute to the ongoing economic integration, increase Estonia's credibility for the investors, and enable Estonia to have more say in Europe's economic policy making. The clear perspective of joining the euro area is of utmost importance for Estonia's economy in the current conjuncture.

The adoption of the single currency calls for meeting certain economic and legal requirements laid down in the Treaty establishing the European Union – the Maastricht criteria. The aim of these criteria is to ensure that the economy adopting the euro is ready for operation in the Economic and Monetary Union, and thus guarantee the smooth functioning of the monetary union and a stable price level. These criteria include price stability and low interest rates, a stable exchange rate, and sound public finances. In addition, an appropriate legal framework is essential to designing and implementing the single monetary policy.

The objective of Eesti Pank is to change over to the euro as soon as Estonia meets all the necessary requirements. Based on current estimates, Estonia is likely to meet the Maastricht criteria at the end of this year, and thus be able to adopt the euro in 2011.

Previous assessments of compliance with the criteria have shown that Estonia meets all the necessary requirements, except the criterion of price stability. However, the external price pressures that boosted inflation last year have eased and also domestic inflation pressures have abated along with the economic slowdown. Based on the spring economic forecast of Eesti Pank, consumer prices will witness a decline in 2009. The recent tax changes will slightly increase the inflation rate, but Estonia will still be able to meet the inflation criterion at the end of 2009.

Although recent economic developments have contributed to Estonia's compliance with the price stability criterion, meeting the budget criterion is the key issue for Estonia in the current global and domestic conjuncture. The budget cuts of February and June 2009 and the additional measures adopted have decreased the expected budget deficit for 2009 by about 6.5% of GDP. This is a major step towards fulfilling all the Maastricht criteria. However, according to Eesti Pank's estimates, the current budget changes do not guarantee that the deficit will be lower than 3% of GDP. Therefore, more additional measures need to be taken this year to improve the budget balance.

Furthermore, it should be borne in mind that besides meeting the criteria for the adoption of the euro, budget balance is necessary also for ensuring the credibility and sustainability of the economic policy.

1. ASSESSMENT OF READINESS FOR EURO AREA MEMBERSHIP

The introduction of the single currency of the European Union – the euro – is obligatory for all Member States of the European Union.[1] The adoption of the single currency and the single monetary policy of the European Union calls for meeting certain economic and legal requirements. These requirements, known as the Maastricht criteria, have been laid down in Article 121 of the Treaty on European Union and Protocol No 21 annexed to the Treaty. The objective of the Maastricht criteria is to ensure the smooth functioning of the European Monetary Union and a stable price level by means of a single monetary policy. These criteria require price stability and low interest rates, a stable exchange rate, and sound public finances. In addition, an appropriate legal framework is essential to designing and implementing the single monetary policy.

The degree of fulfilment of the Maastricht criteria is assessed by the European Commission and the European Central Bank, who compile regular Convergence Reports every two years.[2] Member States are also entitled to require an extraordinary assessment. In addition to the Maastricht criteria, the European Commission and the European Central Bank also take account of other factors of economic integration, such as market integration and balances of payments. The Convergence Reports provide a basis for the European Commission to submit proposals to the ECOFIN and the European Council listing the Member States ready to launch the euro.

The European Central Bank and the European Commission published the latest regular Convergence Reports on the non-euro area Member States on 7 May 2008. Besides Estonia, the euro readiness of nine other countries was assessed, namely Bulgaria, Latvia, Lithuania, Poland, Sweden, Romania, Slovakia, the Czech Republic and Hungary. As Slovakia fulfilled all the necessary criteria in the period under review, the Council of the European Union adopted a decision allowing Slovakia to adopt the euro at the beginning of 2009. Consequently, the euro area now comprises 16 European Union members.[3]

[1] Denmark and the United Kingdom are exceptional in this case, as at the time of agreement on the principles of the monetary union (at the beginning of the 1990s) they were allowed to choose whether or not and when to adopt the euro. Those who joined later (incl. Finland and Sweden) were not given this option.
[2] The Convergence Reports are available on the following websites:
European Commission: http://ec.europa.eu/economy_finance/publications/specpub_list9259.htm
European Central Bank: http://www.ecb.int/pub/convergence/html/index.en.html
[3] The Member States of the European Union are divided into two groups based on their participation in the Economic and Monetary Union: full-fledged members of the Economic and Monetary Union (Member States that belong to the Eurosystem) and countries with derogation (Member States that do not belong to the Eurosystem).

2. ESTONIA'S READINESS TO ADOPT THE EURO

The changeover to the euro must be viewed as a natural development for Estonia. Estonia is a member of the European Union, which means that as soon as Estonia will comply with all the necessary criteria it will be able to join also the euro area. The Estonian economy is closely related to the European single market and also the fundamentals of Estonia's economic policy are very similar to those of the euro area. The fixed peg of the Estonian kroon to the euro has served as the basis for Estonia's economic policy and financial stability for already 17 years. In other words, the Estonian economy and entrepreneurs have been operating in an environment similar to the euro area. The adoption of the single currency would further tighten the close relations between Estonia and other EU countries and increase Estonia's credibility for the investors.

The high inflation rate has been the main obstacle on Estonia's way to joining the euro area. Consumer prices growth stood at 10.4% on average in 2008, being far above the Maastricht price stability criterion (close to but below 2%) By now, the external price pressures have eased and also domestic inflation has decreased along with the economic slowdown and declining wage pressures. Eesti Pank expects consumer price growth to reach 0.5% in 2009. Consequently, Estonia will meet the Maastricht inflation criterion at the end of 2009, and thus be able to adopt the euro in 2011.

Estonia has been complying with the public finance criterion successfully so far, but is now facing some difficulties, given the current recession. The state budget surplus turned into a deficit in one year, and national expenditure has increased considerably as a ratio of GDP. The main responsibility of the Government is to ensure the credibility and sustainability of Estonia's economic policy. Eesti Pank considers it necessary to take further steps in addition to the recent budget cuts to improve the budget balance and keep the deficit within the Maastricht budget deficit criterion.

The Government and Eesti Pank have set the goal to adopt the euro at the first opportunity; that is, as soon as Estonia meets all the necessary conditions. According to the latest regular assessment conducted in spring 2008, Estonia had met all the criteria for the launch of the euro except the criterion of price stability. When Estonia fulfils all the necessary criteria, the exact date of the euro changeover will be announced at least 12 months in advance, so that the state and the private sector could complete the preparations well in time.

The following gives an overview of Estonia's compliance with the Maastricht criteria and the efforts made towards meeting the criteria.

2.1. Price stability

According to the Treaty on European Union, a Member State's inflation rate must not exceed the average of the three best-performing Member States in terms of price stability by more than 1.5 percentage points.

In general, price stability refers to an inflation rate that does not affect people's decisions concerning

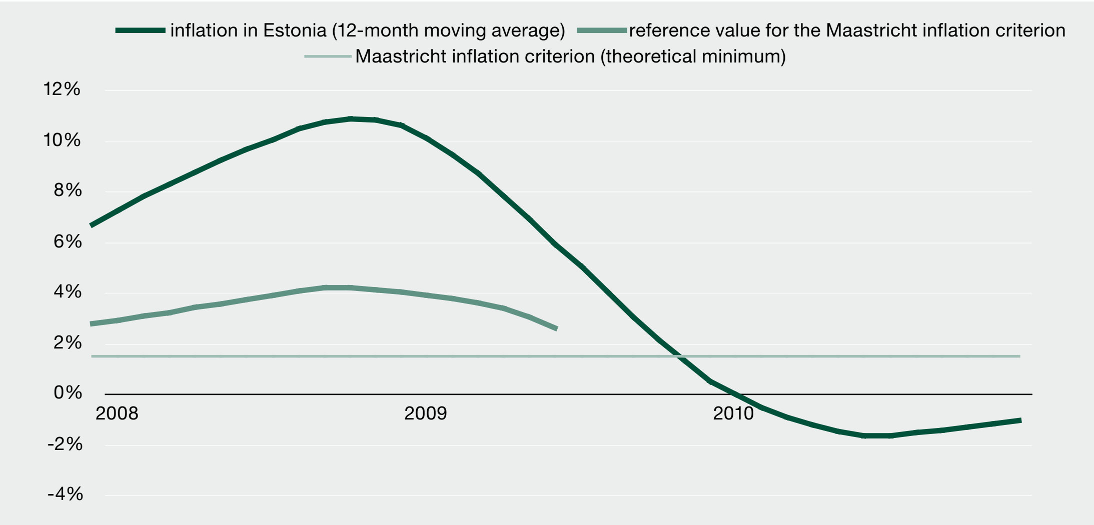

Figure 1. Meeting the inflation criterion

Sources: Eesti Pank forecast (spring 2009), Eurostat

production, consumption, investment and saving. The European Central Bank interprets the price stability of the euro area as the inflation rate close to but below 2% in the medium term. The price stability criterion is calculated on the basis of the average inflation rate for the year preceding the assessment. In the new EU countries a balanced inflation rate, i.e. not endangering price stability, can also be slightly higher in the medium term. The Maastricht price stability criterion also takes that into account by adding 1.5 percentage points to the average inflation rate of the three best performing countries in terms of price stability. In addition, a stable inflation level must be sustainable. Experience has shown that the calculation of the criterion has included only the inflation rates of these countries where price growth is positive.

Estonia is likely to meet the inflation criterion at the end of 2009

Estonia's inflation has been higher than the reference value of the Maastricht criterion almost every year. In the first three quarters of 2008, price growth exceeded 10% and the yearly average was 10.4% (see Figure 1). The main reason for the increase was the sharp rise in global oil and food prices. The double-digit inflation rate was not sustainable for the Estonian economy, as it contributed to the gradual decrease in economic activity. Along with that, inflationary pressures started to ease. Global oil prices also started to fall quickly in the second half of 2008. In June 2009, Estonia's consumer price index was 0.9 lower than a year ago. Inflation in the external environment has decreased to very low levels. The decline in import energy and commodity prices helped curb Estonia's inflation rate considerably in the first half of 2009.

The inflation developments in the last months point to the adjustment of the economy, which will continue in the coming years, since a part of the rapid price growth of previous years needs to be offset. Price and wage cuts are necessary to support growth in productivity. Thus, price and wage developments must be in line with productivity growth also in the future to guarantee a stable economic environment.

Based on the spring economic forecast of Eesti Pank, the price level will decrease in the second half of 2009. The average price fall is expected to be 0.5% for 2009 and 2.9% for 2010. In June, the Government decided to implement a number of tax changes, which may affect inflation both this year and the next. However, these changes will not jeopardise the coming decline in price pressures. Based on preliminary estimates, the average annual inflation rate will be 0.5%; that is 1 percentage point higher than projected in the spring forecast of Eesti Pank. The 12-month average inflation rate, which is used for assessing compliance with the inflation criterion, will slow at a somewhat more moderate pace. Nevertheless, Estonia is expected to fulfil the criterion at the end of 2009.

2.2. Long-term interest rate

The long-term interest rate of a Member State must not exceed the average interest rate of the three best performing Member States in terms of price stability by more than 2%.

The long-term interest rate shows the expectations of market participants and the financial market's level of integration. Low interest rates (which comprise expectations of low inflation as well as low risk premiums) reflect market participants' understanding that the development of the economy will also remain stable in the future. According to the criterion, the interest rate on the long-term (10-year) government bonds denominated in the applicant country's currency must not exceed the average long-term interest rate of the three Member States with the lowest inflation rates by more than 2%.

The long-term interest rate has been relatively low in Estonia but as we lack long-term government bonds denominated in kroon, there is no directly comparable interest rate indicator either. Therefore, an indicator calculated on the basis of long-term kroon loans issued to the private sector is used instead.[4] As this indicator is not directly comparable to the criterion indicator, the European Commission takes also other factors into consideration when assessing the interest rate criterion.

According to the 2008 Convergence Report of the European Commission, the Estonian interest rate level and the low government debt level allow to conclude that Estonia is fulfilling the interest rate criterion. The European Central Bank also gave a positive assessment, based on a general analysis of the financial environment.

2.3. Stable exchange rate

The country must, for at least two years, participate in the currency exchange rate mechanism ERM II and keep the exchange rate of its currency stable against the euro (in particular without devaluation on its own initiative).

The smooth operation of the Estonian currency board since 1992 reflects the competitiveness and stability of our economy. Thus, Estonia was one of the first Member States to join the exchange rate mechanism ERM II soon after accession to the European Union in 2004.

Estonia has fulfilled its (unilateral) commitment to maintain the rate of the kroon against the euro within the 0% fluctuation band (see Figure 2). Both the European Commission and the European Central Bank have noted that the exchange rate of the Estonian kroon has not experienced any problems within the framework of the ERM II and that Estonia complies with the exchange rate criterion.

[4] The long-term interest rate indicator for Estonia was developed in 2004 in cooperation between Eesti Pank, the European Commission and the European Central Bank. It is based on the interest rates of the kroon loans with the maturity of up to five years.

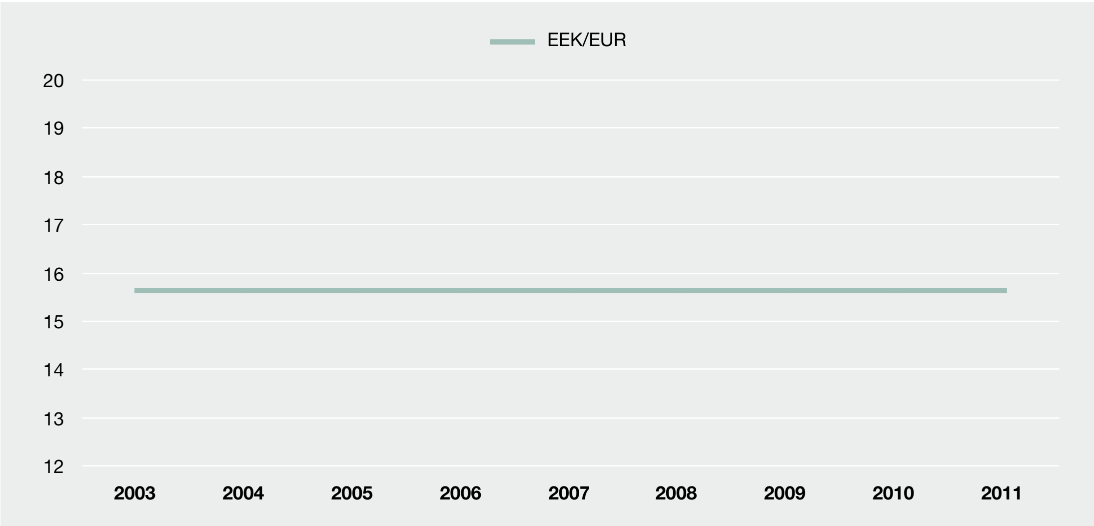

Figure 2. Exchange rate of the Estonian kroon and the euro

Source: Eesti Pank

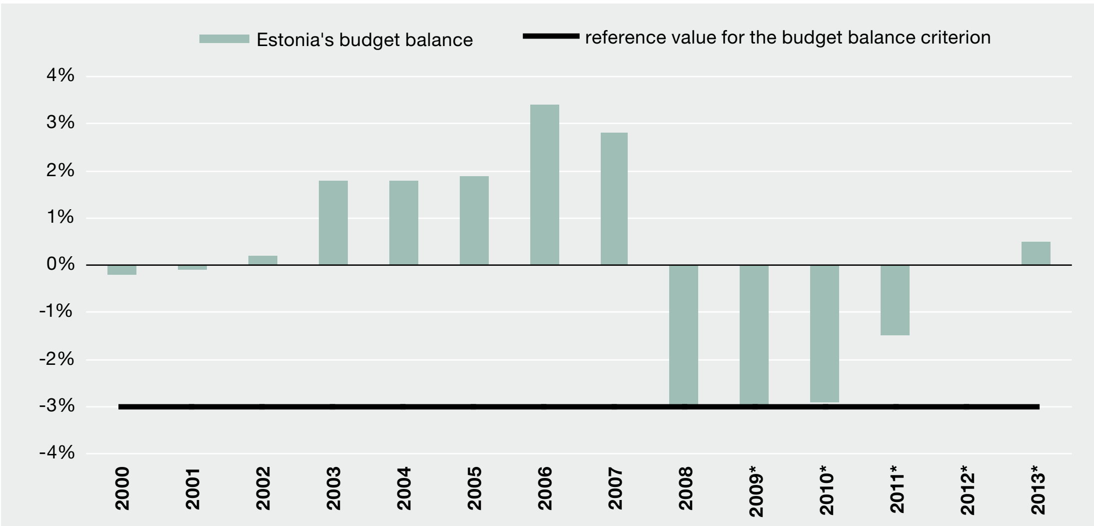

Figure 3. Estonia's budget balance and reference value for the budget balance criterion (% of GDP)

Source: State Budget Strategy 2010–2013 (May 2009)

2.4. Public finances

The general government deficit must be lower than 3% of GDP. Government debt must be less than 60% of GDP or approaching the required level at a satisfactory speed.

In the years of rapid economic expansion, Estonia's general government budget used to be in balance or surplus owing to a relatively conservative fiscal policy (see Figure 3). Government debt (as a ratio to GDP) has been the smallest among the EU Member States (see Figure 4). Thus, Estonia has been complying with the public finance criterion successfully so far.

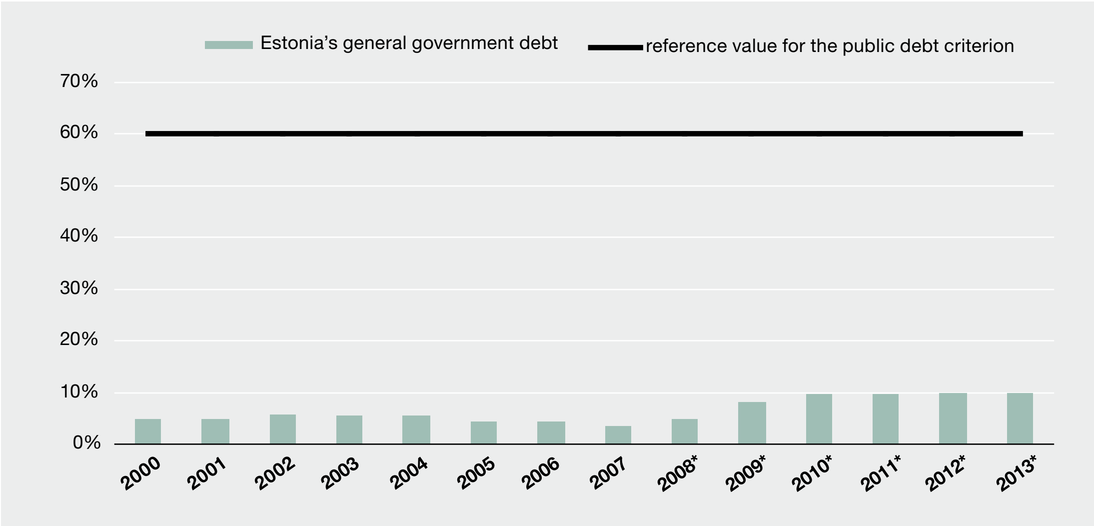

Figure 4. Estonia's general government debt (% of GDP)

Source: State Budget Strategy 2010–2013 (May 2009)

However, along with the global crisis and changes in Estonia's economic situation, the 2.7% budget surplus for 2007 turned into an almost 3% deficit in 2008. The share of expenditure in GDP has grown substantially, which requires bringing expenditure back in line with revenue.

As Estonia has set out to adopt the euro, it is extremely important to keep the state budget deficit within the Maastricht budget criterion. To this end, the Estonian Government took several major steps in the first half of 2009. The budget cuts of February and June 2009 and the additional measures adopted have decreased the expected budget deficit for 2009 by about 6.5% of GDP. This is a great effort towards restoring the sustainability of public finances and comply with the Maastricht budget criterion.

However, according to Eesti Pank's estimates, the current budget changes do not guarantee that the deficit will be lower than 3% of GDP. Based on the spring economic forecast of Eesti Pank and the Government measures implemented so far, the general budget deficit for 2009 will be approximately 4% of GDP. Therefore, Eesti Pank considers it necessary to take additional measures in 2009 for further reduction of the deficit. As soon as the crisis is over, budget balance needs to be restored. The medium-term objective is to achieve a surplus over the economic cycle and restore the reserves.

If Estonia is unable to keep the budget at a sustainable level, this will undermine the reliability of the state in the eyes of foreign investors and jeopardise the introduction of the euro. Moreover, also the future expenditure will increase due to the additional costs arising from loan repayments. If the Government fails to meet the budget criterion this year, the coming years might witness a considerable economic contraction. This, in turn, will entail taking additional government measures to improve the balance of revenue and expenditure. Furthermore, it is vital to look further into the future and guarantee fiscal sustainability also in the years to come. Equal attention should be paid to the current fiscal year as well as the long-term fiscal position, while making efforts to restore the reserves. Strong fiscal policy helps preserve Estonia's economic credibility and supports the future outlook of the economy.

2.5. Legal requirements for the adoption of the euro

First and foremost, an assessment is given of the compliance of the objectives of the central bank with those of the European Central Bank and of the independence of the central bank.

In 2006, the Eesti Pank Act was amended so as to be in compliance with the Treaty on European Union and the Statute of the European System of Central Banks (ESCB). When the time for the changeover to the euro becomes more certain, the Act on the Introduction of the Euro needs to be adopted. In addition to the legislation mentioned above, it is necessary to change the Currency Law of the Republic of Estonia and the Law on the Security of the Estonian Kroon. These acts will be repealed with the Act on the Introduction of the Euro. The draft Act on the Introduction to the Euro has been approved by the relevant ministries but due to the postponement of the date for the changeover the proceedings on the draft Act have been temporarily suspended.

3. NATIONAL PREPARATIONS FOR THE INTRODUCTION OF THE EURO IN ESTONIA

Upon joining the European Union and the Exchange Rate Mechanism II (ERM II), the Estonian authorities set the goal to be technically ready for the adoption of the euro by mid-2006 and to introduce the euro on 1 January 2007. The assessment of the European Commission published in November 2006 on the technical readiness of the non-euro area EU Member States to adopt the single currency was very positive for Estonia. However, Estonia's inflation rate has been higher than allowed by the price stability criterion, which is why Estonia has not yet been able to change over to the euro. But as Estonia is likely to meet the inflation criterion already at the end of this year, the necessary preparations are currently being revised.

3.1. Arrangements at the national level

To ensure a smooth changeover to the euro and coordinate necessary activities the Government decided at its cabinet meeting on 9 December 2004 to form the National Changeover Committee. The Committee is chaired by the Secretary General of the Ministry of Finance. The Committee also includes a Deputy Governor of Eesti Pank, the Secretary General of the Ministry of Justice, the Secretary General of the Ministry of Economic Affairs and Communications, the Secretary General of the Ministry of Internal Affairs, the Director for European Union Affairs at the State Chancellery, and an adviser to the Prime Minister.

The committee has established six working groups who address the following issues: cash and settlements (Eesti Pank and credit institutions), business environment, public sector technical readiness, consumer protection, legal matters, and communications. In January 2009, a seventh working group was established, which deals with monitoring compliance with the Maastricht criteria. Besides public sector experts, the working groups involve also private sector representatives in the technical preparations for the introduction of the euro.

In order to prepare for the changeover to the euro, Estonia's National Changeover Plan was compiled under the instruction of the National Changeover Committee, which includes guidelines for government authorities and information for the general public. The latest euro plan, version 7, was approved on 25 June 2009 and is available on the websites of the Ministry of Finance and Eesti Pank[5] and on the euro web at www.euro.eesti.ee.

In addition, a high-level working group has been set up and chaired by the Prime Minister. The members of the working group include the Minister of Finance, the Minister of Economic Affairs, the chairmen of the coalition parties of the parliament, Governor of Eesti Pank and Chairman of the Estonian Chamber of Commerce and Industry. The group is responsible for coordinating the implementation of the economic policy measures necessary for meeting the Maastricht criteria.

3.2 Preparations of Eesti Pank

The central bank already started preparations for ensuring a smooth changeover to the euro in autumn 2003. Since joining the European Union in May 2004, Eesti Pank has been a member of the European System of Central Banks (ESCB). Preparations for joining the ERM II in June 2004 were equally important. For that purpose, Eesti Pank engaged in close cooperation with the European Commission, the European Central Bank and other EU Member States.

In 2004, Eesti Pank started to draft the framework for changing over to the euro, taking into account the experience of other states and the specifics of

[5] http://www.eestipank.info/pub/et/EL/ELiit/

Estonia. The principles developed by the central bank formed the basis for the official plan for the changeover to the euro, which was compiled in spring 2005. By autumn 2006, all major matters concerning the currency exchange had been agreed upon with market participants.

The objective of Eesti Pank was to be ready by the middle of 2006 in terms of the organisation's everyday operations and for the introduction of the euro area's single monetary policy. The central bank completed all preparations not directly dependent on the date for the adoption of the euro. Due to the postponement of joining the euro area, the activities that can be started only after the Council of the European Union has made its final decision on the accession to the euro area, such as minting the Estonian euro coins, were suspended. In addition to the supply and distribution of euro cash, also the settlement and payment systems must change over to the euro. For further information on the activities of Eesti Pank with regard to the adoption of the euro, see the Annex to this Report.

3.3. How does the changeover to the euro take place in Estonia?

The euro will be introduced as account (electronic) money (e.g. accounts and deposits in commercial banks), and in accounting and contractual relations according to the "big bang" scenario on the so-called **€**-day[6]. This means that there will be no transitional period. Account money will be converted into euro automatically, simultaneously and in full.

A two-week period of dual circulation will start from the **€**-day. During that time kroon cash and euro cash are considered equal payment means. Retailers will accept both the euro and the kroon, but change will be given in euro, as a rule. All ATMs should be ready for dispensing euro cash within 48 hours from the **€**-day. After the period of dual circulation the euro will become the sole legal tender in Estonia.

In order to simplify the launch of the euro cash into circulation, the credit institutions will exchange kroons to euros at the central exchange rate established on the transition to the euro and without a service fee for a month before and six months after the **€**-day. Later on, they will continue providing the same service within a limited branch network for at least another six months. When the credit institutions no longer exchange kroons to euros, Eesti Pank will continue to do so at the central exchange rate and without a service fee for an unlimited period of time.

Six months before and after the **€**-day retailers will be required to display the prices at points of sale in both kroons and euros, converting the prices at the exchange rate established by the Council of the European Union, or in the event of non-availability of such a rate at the official exchange rate of Eesti Pank. The Government will serve as an example to the private sector by rounding taxes and state fees down – that is, for the benefit of the taxpayers – when calculating them from kroons into euros.

The expenditure related to the changeover will generally be covered by the market participants themselves.

[6] The date for the transition to the euro.

APPENDIX. PREPARATIONS OF EESTI PANK FOR THE ADOPTION OF THE EURO

This Annex gives an overview of the activities of Eesti Pank in relation to the adoption of the euro. The preparations for the changeover started already in 2003, but several activities have been suspended for the time being due to the postponement of accession to the euro area. Based on current estimates, Estonia is likely to adopt the euro in 2011, which is why Eesti Pank has resumed the necessary preparations.

1. Adoption of the euro as account money

The introduction of the euro as account money will take place on the **€**-day, that is 1 January 2011, without any transitional period.[7] Account money will be converted into euro automatically, simultaneously and in full. As of the **€**-day, all the transactions made will be recorded in euros. The account numbers of the customers will remain unchanged.

The introduction of euro account money concerns primarily the central bank, the credit institutions and the related infrastructures: the interbank payment and settlement system, the settlement system for card payments, and the securities settlement system. Eesti Pank and the credit institutions agreed on the principles for the adoption of the euro account money in the working group on interbank business processes in 2005, when preparations for joining the euro area on 1 January 2007 were under way. Now, Eesti Pank and the credit institutions need to revise these principles together. Credit institutions are also responsible for the transition and conversion of their banking systems to the euro in accordance with all the requirements.

The adoption of the euro and changes in the interbank settlement systems of Eesti Pank

The transition of the Eesti Pank's settlement systems to the euro will be carried out in the night before the **€**-day. As of the first banking day of the month of the changeover, Eesti Pank's settlement systems will settle payments only in euro.

Eesti Pank has completed major preparations for the transition of the settlement systems to the euro. On 19 May 2008 Eesti Pank connected to the TARGET2-Eesti, the settlement system for pan-European euro payments. The functionality of the ESTA, the Settlement System of Ordinary Payments, also provides for the transition to euro-based settlements.

As a full member of the ESCB, Eesti Pank has to ensure the compliance of the payment and securities settlement systems used in Estonia with the requirements of the Eurosystem, and the smooth operation of monetary policy transactions. In other words, the central payment and settlement systems (TARGET2-Eesti, ESTA) and the securities settlement infrastructures used for the Eurosystem's monetary policy and liquidity management transactions need to be assessed before the adoption of the euro and updated accordingly.

Card payments

As of the **€**-day, all card payments will be made in euros. The transition to euros will be conducted so as to cause minimum disruptions for the card owners. Consumers need to take into account that there might occur a few failures in card payment systems during the first hours of the **€**-day.

[7] The conversion of accounts will take banks approximately two hours; the conversion of the entire banking system into euros will take around 12 hours.

To ensure a smooth changeover, the software of points of sale will be updated simultaneously with the conversion of accounts to euro; that is, on 1 January 2011 at 0:00.

New software will be developed for the payment terminals and cash register systems. Pankade Kaardikeskus (Card Centre of Banks) and credit institutions will agree on a joint code of practice. The users of payment terminals will be informed about the coming changes.

Banking services

As of 1 January 2011, all banking services will be available in euro. In order to manage in time, banks may convert their services (e.g. contracts, time deposits) to euro also before the **€**-day. The underlying principle is that customers must be able to use all banking services in the Estonian kroon at the central exchange rate and without a service fee until Estonia's accession to the euro area.

In the case of contracts, the principle of consistency will be applied. This means that there is no need to change the existing contracts. The sums will be converted from kroon to euro at the exchange rate established in a regulation of the Council of the European Union. The repayment schedules of loan, lease and other contracts may be indicated both in the kroon and the euro before the **€**-day. Specific actions will be up to every credit institution.

2. Euro cash changeover

Since 2003, Eesti Pank has been making preparations for the receipt, storage and handling of euro cash as well as the effective and secure storage, counting and destruction of kroons withdrawn from circulation. Successful cash changeover relies on efficient cooperation between credit institutions and other cash handlers. The cash changeover has been prepared for by a special working group, which was established in 2005 and which will start regular meetings again after the new date for the adoption of the euro will be set. The working group held two meetings this spring and intends to endorse a new and detailed action plan in August-September 2009.

Euro coins and banknotes

The minting of euro coins will be started only after the adoption of the final decision on Estonia's accession to the euro area. Before that, only preparatory works and the minting of sample coins are allowed. Euro banknotes will be delivered to Eesti Pank by some central bank of the euro area as established by a contract concluded with the European Central Bank. The first revision of the projected necessary amount of cash has been completed and the projections will be further updated in line with banks' estimates until the conclusion of the contract.

Front loading and sub-front loading of cash

The front loading of euro banknotes and coins to credit institutions will take place 1–3 months before the **€**-day. The purpose of front loading is to spread the load of transport and guarantee rapid distribution of euro cash all over Estonia. The sub-front loading of cash lies in the distribution of euro cash by commercial banks to their major customers. Both the front loading and sub-front loading will be carried out in accordance with the guidelines of the European Central Bank and the European Commission. According to these guidelines, Eesti Pank will conclude contracts with the credit institutions and the latter with their clients. At this point, the credit institutions have got projections regarding front loading and sub-front loading for the planned euro cash changeover in 2007, which need to be updated.

Retuning of ATMs

The responsibility for retuning ATMs lies with the working group dealing with technical and logistical issues. The working group includes representatives of credit institutions (ATM owners), ATM maintenance companies and Eesti Pank. The group developed a detailed and tested plan for the expected changeover in 2007. In August 2009, the group will start to revise the existing plan and prepare a plan for logistics.

Euro cash trainings

Eesti Pank intends to organise a number of trainings for cash handlers within 12 months before the €-day. The purpose of the trainings is to distribute information regarding the security features of the euro, thereby minimising the spread of counterfeits. A number of re-trainers who will teach other cash handlers will be trained in these courses. The trainings will be implemented in two parts. First, around 50 people from major companies will be trained who will then distribute the information in their companies. Second, a larger number of cash handlers will receive training in the form of lectures, brochures and interactive materials.

Nine months before the €-day Eesti Pank will develop exact time schedules for the trainings and information plans. Companies are also expected to project their training needs nine months before the date of the changeover (the staff of credit institutions will have received training already before that).

Coin collection campaign

A special campaign will be organised to collect the kroon coins. The campaign will include credit institutions and the Cash Centre; the specifics will be agreed six months prior to the €-day. The purpose of the campaign is to provide people the opportunity to bring their kroon coins to commercial banks within a certain time period before the €-day. The credit institutions and Eesti Pank agreed on the specifics of the campaign (including the collection, counting and transfer of coins to accounts) in 2006. The respective working group will meet again in August 2009.

3. The responsibilities of Eesti Pank in the European System of Central Banks

Monetary policy

Monetary policy decisions are made centrally by the Governing Council of the European Central Bank, but are implemented decentrally by every national central bank in its country. In the euro area, national central banks conduct regular monetary policy operations are by granting short-term loans with a fixed maturity to commercial banks in exchange for collateral. The monetary policy framework of the currency board arrangement used in Estonia differs significantly from the euro area's framework. In order to join the euro area, relevant legislation and information systems need to be developed to allow access for the commercial banks operating Estonia to the monetary policy operations of the euro area.

Foreign reserves management

As regards foreign reserves, the central bank must be prepared for the management of foreign reserves in accordance with the rules established by the European Central Bank. Every central bank of the euro area manages one part of the ECB's foreign reserves in proportion to the size of the respective country. Eesti Pank has to specify the form of participation in that process and then introduce the necessary information systems and changes in the organisation of work.

4. Statistics

Eesti Pank completed most of the strategic tasks established in the euro changeover plan regarding statistics in 2003–2004. The tasks included reorganisation of data collection systems, data sources and IT solutions. To sum up, the statistical system of Eesti Pank was brought into compliance with the general principles of the ESCB's statistical system. However, as concrete requirements to data are constantly changing, it is difficult to project all the tasks that need to be implemented before the introduction of the euro. (For instance, in 2010 new requirements to the balance sheet and interest rate statistics of monetary financial institutions will be applied.)

Approximately six months before the €-day, several technical tasks must be completed, including the following:

1) Development of principles for the conversion of the time series of financial sector and balance of payments statistics, and recalculation of the time series;
2) Rearrangement of the reporting system due to the change of the reporting currency (the task will be more complicated in case the €-day does not coincide with the initial date of the quarter);
3) Implementation of the methods of the reserves account of the balance of payments statistics.

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