Estonia’s National Changeover Plan

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INTRODUCTION

Estonia joined the European Union (EU) on 1 May 2004. The decision to join the European Union, which was approved at the referendum held in the autumn of 2003, also expressed support for the accession to the euro area. The Estonian 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. Based on the spring prognosis of 2009 by the Ministry of Finance, the Government has decided to **set the goal of reaching the €-day** (i.e. the day when Estonia will become a member of the euro area and the euro will enter into circulation in Estonia) on **1 January 2011**. The changeover from the kroon to the euro will occur at the current exchange rate of 15.6466 EEK = 1 EUR.

The practical preparations for adopting the euro already began before joining the European Union after the Government's Cabinet meeting on 15 January 2004, when the Government of the Republic of Estonia set the goal to be technically ready for the adoption of the euro by mid-2006 in order to introduce the euro on January 1, 2007. On 28 June 2004, Estonia joined the Exchange Rate Mechanism (ERMII), which is considered as the 'antechamber' of the euro area in order to stabilise the exchange rate.

After joining the ERM II the European Commission and the European Central Bank (ECB) have assessed Estonia's readiness to join the euro area already three times – in 2004, 2006 and 2008. The latest convergence reports, which were published in May 2008, assessed the economic and legal convergence of 10 Member States with the euro area – Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia, and Sweden. According to the reports, Estonia fulfilled the exchange rate, the public sector's deficit, the long-term interest rates and the legal convergence criteria. For the latter it is presumed that the Currency Law and the Law on the Security for the Estonian Kroon will be repealed at the time of joining the euro area. The price stability criterion was the only one Estonia was not able to fulfil and failure to fulfil it has been the key obstacle to Estonia in becoming a member of the euro area.

The increase in consumer prices has been relatively rapid since EU accession. The inflation has been boosted by elevated fuel and food prices as well as administrative price rises, incl raising the excise duties to conform with the minimum levels of the EU. However, at the end of last year both the influence of fuel and food price pressures clearly started to abate, resulting in a rapid slowdown in price growth. According to Eesti Pank and the Ministry of Finance, meeting the inflation criterion will probably become feasible for Estonia at the end of 2009.

In order to adopt the euro on 1 January 2011, all the other criteria should also be continually met, maintaining a strong fiscal policy being the key requirement. The economic decline and the rapid decrease of budget revenues are undoubtedly complicating the fulfilment of the budget balance criterion. The budget cuts made so far are an attempt to stabilise this year's deficit within the limits of the Maastricht criterion (not larger than 3% of GDP), but considering the risk of an unexpectedly fast economic decline, we must be ready for additional measures to keep the deficit in compliance with the criterion in 2009 as well as in 2010.

The expansion of the euro area is based on the assessments of the European Central Bank and the

European Commission. The next regular convergence reports are due in spring 2010[1]. When the Commission and the ECB will have presented their opinions, after consulting with the European Parliament and the European Council, the Council of Ministers (ECOFIN – the Council of Economics and Finance Ministers of the European Union) will give their final assessment on Estonia's readiness for the adoption of the euro. As of the beginning of 2010, by the enforcement of the Lisbon Treaty the decision-making process shall presumably be complemented by receiving recommendations from the euro area countries. The euro-area accession procedure involves many counterparties, so the formal decision-making process from the submission of the application to the Council's approval may last approximately 5 months (based on the example of processing the applications submitted by Slovenia, Cyprus and Malta).

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.

At its first meeting on 15 February 2005, the Changeover Committee adopted a decision to form six working groups, whose objective was to map and find solutions to potential problems that may arise in different areas with regard to the changeover – the work groups of Eesti Pank and credit institutions, the business environment, governmental authorities, consumer protection, legislation and communication. In 2009, a seventh work group was created to monitor and account for the fulfilment of the criteria of the adoption of the euro. The work groups involve participants from both the public and private sectors. [2]

The National Changeover Plan is directly based on the inputs of all working groups. The work groups have been meeting since March 2005 and have mapped out the issues to be dealt with in relation to the changeover. The objective of the plan is to provide guidelines for governmental authorities and information for the wider public in order to prepare for the adoption of the euro. The plan will be updated as new changeover-related issues arise and are solved in or outside the working groups. The National Changeover Plan is a public document, which is available in Estonian, Russian and English on the web sites of the Ministry of Finance, Eesti Pank and credit institutions, as well on the web site *Euroveeb* at euro.eesti.ee.

[1] Presuming that Estonia fulfils all the criteria, we are entitled to request the European Commission and the European Central Bank to assess Estonia also outside the regular cycle (i.e. every two years) of convergence reports.
[2] More information on the composition of work groups in Appendix 1.

THE PATH TO MONETARY UNION

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

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

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

In 1992, Member States of the EU concluded the Maastricht Treaty, which established the European Economic and Monetary Union. One aim was to be the introduction of a single currency in Europe. The single currency was to give traders in a single market a uniform price scale and means of payment, which was to significantly simplify and activate trade between the Member States. Preparations took place in three stages, the last of which began in 1999 with the creation of the euro and the beginning of the single monetary policy.

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

THE MAASTRICHT CRITERIA

In order to become a full member of the European Economic and Monetary Union and join the euro area, the EU Member States with derogation must participate in the exchange rate mechanism ERM II and bring their economic indicators into conformity with the Maastricht nominal convergence criteria. These include the sustainability of the government's financial position, price and exchange rate stability:

- *Public finance*. The general government budget deficit must be lower than 3% of GDP. The government debt must be smaller than 60% of GDP or approaching the required level at a satisfactory rate.
-*Exchange rate*. The country must, at least for two years, participate in the currency exchange rate mechanism ERM II and keep the exchange rate of its currency stable against the euro without serious complications. Member States may not devalue the exchange rate specified within the ERM II at their own initiative.
- *Price stability*. The state's inflation rate must not exceed the average of the three Member States who have achieved the best results by more than 1.5 percentage points.
- *Interest rates*. The state's long-term inflation rate must not exceed the average of the three Member States who have achieved the best results in price stability by more than 2 percentage points.

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

In order to adopt the single currency, it is important that conservative economic policies be continued.
- Estonia's general government budget has remained in considerable surplus throughout 2001–2007 and, accordingly, our public debt is the lowest in the EU (currently less than 4% of GDP). However, the economic decline has put extensive pressure on the state budget and additional efforts are required to remain within the budget balance criterion.
- Estonia joined ERM II on 28 June 2004, while preserving the currency board arrangement and assuming a unilateral commitment to keep the exchange rate of the Estonian kroon pegged to the euro (1 EUR = 15.6466 EEK). By now, the requirement of the criterion to maintain a stable exchange rate for at least two years within ERMII has been fulfilled. Estonia will remain a member of ERM II until the country's accession to the euro area, abiding closely by the obligations assumed in June 2004.
- Against the background of rapid economic growth and price level convergence, meeting the price stability criterion was the most complicated task for Estonia, but the latest prognoses indicate that Estonia may be able to meet this criterion sustainably by the end of 2009.
- Estonia lacks a proper instrument for assessing the convergence of interest rates (i.e., at least a 10-year government bond issued in EEK), but, based on the low level of kroon interest rates in the private sector, low public debt and a good budgetary position, the European Commission has expressed the opinion that Estonia should not have problems in fulfilling the interest rate criterion.

STABILITY AND GROWTH PACT

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

Achievement of fiscal discipline. According to the pact, Member States must aim to reach the medium-term objective (MTO) of the budgetary position. These goals may deviate from government sector's budget position requirement by remaining close-to-balance or in surplus, but they must guarantee the adherence to the annual budget deficit limit of less than 3% of GDP even during economically more difficult years. The MTOs of the Member States that have adopted the euro or are participating in the ERM II have to range from -1% of GDP to a balance or surplus. MTOs are set in cyclically adjusted terms, net of one-off and temporary measures.

If a Member State fails to fulfill the budget deficit and/or debt criterion, an excessive deficit procedure (EDP) shall be initiated against the state, and the Council of Economics and Finance Ministers of the European Union (ECOFIN) shall make a recommendation to correct the excessive deficit. In order to do that, a Member State is usually given a period from the discovery of the excessive deficit until the end of the following year. The SGP also provides the Council with the option to impose penalties on those states in the monetary union who have an excessive budget deficit and who do not take effective action for its correction. The penalty may first be imposed in the form of an interest free deposit payable to the EU (up to a limit of 0.5% of the GDP of the Member State), but if the excessive deficit is not corrected within two years, the penalty may become a fine. Notifications of debt and deficit levels submitted by a Member State twice a year (by 1 April and 1 September) form the basis for the excessive deficit procedure. Eurostat must also approve the submitted figures.

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

IMPACT OF THE INTRODUCTION OF THE EURO ON ESTONIA

No significant changes will take place in Estonia's economic policy as a result of the introduction of the euro. Given that under the currency board arrangement, the Estonian kroon has been pegged to the Deutsche Mark since 1992 and to the euro since 1999, Estonia has conditionally been in the Monetary Union with the EU core states for almost 17 years now. Under a currency board arrangement, like within a monetary union, a state does not exercise an independent monetary policy. Through its rigidly fixed exchange rate, the economy of Estonia is already directly within the sphere of influence of the ECB monetary policy. Therefore, the introduction of the euro will change nothing significant for Estonia in terms of monetary policy.

A currency board tied to the euro differs from a monetary union because of the existence of an exchange rate. The exchange rate risk will disappear upon Estonia's accession to the euro area, which will assure economic agents that in the future the threat of devaluation will no longer exist. Accession to the euro area will also entail the obligation to follow a balanced economic policy in the future (see Stability and Growth Pact). Together with the disappearance of the devaluation risk, accession to a stable economic area will increase long-term monetary stability in Estonia, provided that conservative economic policies are continued. This will, in turn, be reflected in long-term stable and low interest rates. Thus, it will reduce the risk of a steep rise in interest rates, as could be seen in the case of the so-called Russian crisis in 1998. A stable financial environment fosters the recovery of economic growth and will help sustain economic development.

The changeover to the euro will also increase Estonia's role in influencing the economic policy of the European Union. Current developments have shown that countries that do not belong to the euro area affect the economic policy of the EU considerably less compared to those within the euro area. After being granted full membership of the EMU and the introduction of the euro, representatives of the Ministry of Finance will start to participate in the work of the Euro Group, to which only representatives of euro countries belong. The role of the Euro Group in the EU economic policy-related decision-making will continue to increase in the future. Representatives of Eesti Pank will also start taking part in the formulation of monetary policy in the euro area by participating in the activities of the Council, the most important decision-making authority in the ECB.

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

The introduction of the euro will not result in a significant acceleration of inflation. Based on current experience, the impact of the introduction of the euro has been short-term and between 0.1–0.3 percentage points.

MAIN PRINCIPLES OF EURO CHANGEOVER

Changeover to the euro must be smooth. This requires extensive preparatory work in different areas, involving representatives from different institutions and target groups. The general public must also be well informed. The activities necessary for the introduction of the euro are planned so as to make the changeover as convenient as possible to the people. The interests of entrepreneurs are also taken into account by using the simplest and most cost-effective method, while making sure that all the necessary preparations for a smooth changeover will be made. Various measures will be used in order to minimise price pressure.

The main principles of the euro changeover are the following:
• Introduction of the euro in electronic money, accounting and contractual relations will take place as a "big bang", i.e., there will be no *transitional period*[3];

• With a view to ensuring a smooth changeover to the euro, a two-week period of dual circulation[4] will start from the €-day (scheduled for 1 January 2011), during which the euro and the kroon will be treated as equal legal tenders. Both euro and kroons will be accepted in shops. Change, in general, will be given in euro. After the period of dual circulation, the euro will become the sole legal tender in Estonia.

• In order to simplify the issue of euro cash, commercial banks will, upon agreement with Eesti Pank, change kroons into euro at the central exchange rate and without a service fee for a month prior to and six months following the €-day, and will then continue to provide the same service within a limited branch network for at least another six months. After the exchange of kroons to euro in commercial banks has ended, Eesti Pank will continue to exchange kroons to euro 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 prices, written manually or in printed form, at points of sale in both kroons and euro, using for conversion the exchange rate established by the Council of the European Union, or in the event of non-availability of the rate, the official exchange rate of Eesti Pank. Traders who start displaying prices in both kroons and euro as of 1 September 2006 must calculate the prices from one currency to another following the official exchange rate of Eesti Pank.

• To set an example to the private sector, the Government will be rounding the kroon amounts of taxes and state fees, benefits and other kroon amounts related to the budget into euro in a more favourable direction for taxpayers.

• In general, expenditure related to the changeover will be covered by market participants themselves.

[3] Transitional period – the period from the beginning of full membership of the Economic and Monetary Union until the moment when the national currency is no longer in use in accounting, as money in accounts, or in contractual relations. This period may coincide with the period of parallel circulation but may also be omitted (in the event of a *big bang*).
[4] Period of dual circulation – the period when kroons and euro are both in circulation as legal means of cash payment.

LEGAL FRAMEWORK

1. Changeover to the euro in European Union legislation

The EU legal framework regarding the introduction of the euro consists of three Council Regulations. Council Regulation No 1103/97 provides the principle of continuity of contracts, rounding and conversion rules between participating currencies and the euro. Regulation No 974/98 establishes the euro as the sole legal tender in the countries, which have joined the euro area. This Regulation also covers aspects of the transitional period (which, in the case of Estonia, will not apply) and issues related to euro coins and notes. Council Regulation No 2866/98 provides the conversion rates fixed between national currencies and the euro.

Period of dual circulation

From the date of entry into force of the Council Regulation establishing the date of Estonia's accession to the euro area and the conversion rate between the euro and the kroon, the euro will be legal tender in the Republic of Estonia. According to the Government's programme, this day is on 1 January 2011. Considering that to ensure a smooth changeover a period of dual circulation is needed, with an optimal duration of two weeks, the Act on the Introduction of the Euro shall provide that for 14 days after the entry into force of the aforementioned Regulation of the Council of the European Union, the euro and the kroon shall both be legal tender. Therefore, cash payments may be executed in euro and kroons within two weeks of the issue of the euro. After the termination of this period, the euro will be the only legal tender in Estonia.

Rounding rules

Conversion to the euro will take place by dividing a value shown in the Estonian kroon by a ratio to be determined by a Council regulation. The result obtained will be rounded to one-cent accuracy based on three decimal places. If the third decimal is 5 or higher, the converted value will be rounded up.

Example 1. If you would like to convert, for example, 264.50 kroons into euro, you must perform a dividing operation: 264.50 EEK: 15.6466 = 16.90**4**63104 euro.

The result must then be rounded to the nearest cent by taking the third decimal 16,90**4**63104 into account. If the third decimal is 4 or less, the converted value will be rounded down; therefore, in the case of this example, rounding to the nearest cent would yield 16.90 euro.

Conversion of the euro into the kroon is performed in a similar manner to the aforementioned rule; the difference is that an operation of multiplication must be performed instead of division. Pursuant to the Trading Act, upon settlement, the final price of goods or services may be rounded to a number yielding a whole number when divided by 10 cents.

Example 2. If you would like to convert 27 euro into kroons, the following multiplication must be performed:
27 euro x 15.6466 = 422.45**8**2 kroons = 422.46 kroons. Upon settlement, the result may be rounded to 422.50 kroons.

Continuity of contracts

Pursuant to Council Regulation No 1103/97, the introduction of the euro shall not affect the continuity of contracts or other legal documents. The introduction of the euro shall not affect the conditions of any legal document or exempt anyone from the fulfillment of obligations, and neither shall it grant a party the right to unilaterally amend or terminate a valid document.

2. The Euro in Estonian legislation

Estonia's national legislation will also be amended to meet the conditions necessary for the changeover. Draft legislation regarding the changeover will be submitted to the European Central Bank for consultation. The objective of the consultation procedure is to ensure that our national legislation is in conformity with the legal instruments of the European System of Central Banks and the policy of the European Central Bank (a more specific regulation is provided in Council Decision No. 98/415/EC).

Estonia's full membership of EMU will result in a legal situation where Eesti Pank may issue euro banknotes on receiving authorisation from the ECB and euro coins to the extent prescribed by the ECB, whereas the euro is the sole legal tender on the territory of Estonia after the dual circulation period. The requirements prescribed by article 109 of the Treaty Establishing the European Community are also met, as the Constitution of the Republic of Estonia Amendment Act provides that the Constitution be implemented in accordance with the EU legislation.

Amendments in Legislation

A comprehensive "umbrella" law, enabling an overview of the legislation to be amended, will be prepared for the purpose of the introduction of the euro in Estonia. The Act on the Introduction of the Euro will provide for the procedures of exchanging kroons into euro and removing kroons from circulation, the regulation of parallel circulation and the necessary changes in existing laws (currently 202 laws). It will repeal the Republic of Estonia Currency Act and the Republic of Estonia Act on the Security for Estonian kroon. The Act on the Introduction of the Euro shall enter into force on the date established by the Decision of the Council of the European Union on abrogation of the derogation of the Republic of Estonia pursuant to the procedure laid down in subsection 122 (2) of the Treaty establishing the European Community. The Republic of Estonia Act on the Security for Estonian kroon shall be repealed on the 15th day after the date of the abrogation of the derogation.

The Act on the Introduction of the Euro does not include amendments to acts that require more comprehensive amendments as a result of the adoption of the single currency. If necessary, the draft Act on the Introduction of the Euro will be supplemented by the amendments to the State Fees Act. Amendments to the Commercial Code shall be treated separately. Amendments to the Land Register Act, the Commercial Pledges Act, and the Commercial Associations Act are included in the draft Act to amend the Commercial Code. Amendments to the Eesti Pank Act were adopted by the Riigikogu on 7 June 2006. The Act on the Amendment of Eesti Pank Act brought the Eesti Pank Act into conformity with the requirements set for the central bank of a country that is a full member of the EMU by the Treaty Establishing the European Community and the Statute of the European System of Central Banks and of the European Central Bank. The Act on the

Amendment of Eesti Pank Act eliminated the discrepancies between the Eesti Pank Act and *acquis communautaire* brought forth in the European Commission's Convergence Report of 2004.

Preparations

• The draft Act on the Introduction of the Euro was forwarded to ministries, business organisations and other relevant organisations for consultation and opinions by the Ministry of Finance on 25 April 2006 as part of the technical preparations for the changeover to the euro.

• The draft is regularly updated to take into account changes in related legislation. It will presumably be presented again for coordination in the second half of 2009.

• After the draft has been coordinated, it will be submitted to the ECB for opinion as provided by subsection 105 (4) of the treaty and Decision of the Council of the European Union No. 98/415/EC.

• The draft Act on the Introduction of the Euro will be submitted to the Riigikogu after it has been approved by the ECB.

• Preparations to compile the draft Government Regulation will start after the submission of the draft Act on the Introduction of the Euro to the Riigikogu. The draft comprises amendments to the Government Regulations where values have been expressed in the Estonian kroon as provided by the regulation currently in effect. Similarly to the Act on the Introduction of the Euro, the regulation to be compiled will provide an overview of the Government Regulations that need to be amended.

• Regulations of ministers that need to be amended as a result of the adoption of the euro will be prepared by ministries.

CENTRAL BANK AND CREDIT INSTITUTIONS

1. Euro cash

Euro notes are denominated in 5, 10, 20, 50, 100, 200 and 500 euro. Identical banknotes are used in all euro-area Member States.

Euro coins are denominated in 1, 2, 5, 10, 20 and 50 cents and 1 and 2 euro. The common side of each coin is identical in all Member States but the national side differs in each country. Despite different reverses, all coins are legal tender throughout the euro area.

Eesti Pank selected the national side of the Estonian euro coins through a public design competition. 134 designs were submitted to the competition announced on 18 June 2004, of which the jury selected the best ten. Of the selected designs, the winner was chosen through telephone voting from 4-11 December 2004. The entry Hara 2 by Lembit Lõhmus received 12,482 out of 45,453 votes and was declared the winner. The winning design features the outline of Estonia and the word "Eesti". In the international competition for minting Estonia's euro coins, which took place in 2005, Mint of Finland made the best offer. The agreement is concluded for an unspecified term.

2. Exchange of kroon cash into euro

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

Retailers. In order to facilitate the changeover from kroon cash to the euro, a two-week period of dual circulation is planned. During this period, payments in cash can be made in both kroons and euro at all sales and service points. In general, change will be given in euro[5].

Although it will be possible to pay in kroon cash in shops during the period of dual circulation, the retail distribution network should not be used for realising big amounts of kroon coins. A separate campaign is planned for the collection of coins, the principles of which will be specified six months before the €-day (in other words, in the summer of 2010).

Banks. Upon agreement with Eesti Pank, it will be possible to exchange kroons for euro at the central exchange rate and without a service fee[6] in all bank offices providing cash services from 1

[5] Since the objective of the period of dual circulation is to smoothly remove kroons from and put euro into circulation, shops must always, if possible, give change in euro. Considering the possibility that euro cash may not have been delivered to shops in remote rural areas by the €-day (according to safety requirements, euro will not be allowed to be transported everywhere prior to the €-day), the possibility of giving change in kroons remains for the entire period of dual circulation.

[6] The principle of exchanging kroons for euro without a service fee means credit institutions will not charge fees during the specified period for direct cash exchange transactions only. Credit institutions are entitled to charge service fees according to their price list for accompanying transactions (e.g., depositing cash into the account of another person, counting a vast amount of coins on the spot, etc).

month[7] before the €-day to 6 months after the €-day, and in a limited branch network for 12 months after the €-day[8]. Thereafter, Eesti Pank will change kroons into euro for an unlimited period of time and in unlimited amounts. The requirements for combating money laundering will be followed during the entire cash exchange period.

Although the euro is not legal tender in Estonia prior to the €-day, it has been planned that banks will offer the possibility of changing kroons into euro at the central exchange rate and without a service fee for at least one month[9] prior to the €-day. This initiative is necessary for reducing the workload in commercial and service establishments and in credit institutions after the €-day.

The Cash Centre and credit institutions are discussing the possibility of preparing standard packages of euro coins for small traders, which can be bought through credit institutions.

***Automated teller machines*.** ATMs are one of the most important channels for putting euro banknotes into circulation. ATMs of different banks will be reprogrammed and filled with euro cash in the course of a joint project, which aims to convert all the ATMs in Estonia to dispense euro banknotes within 48 hours as from the €-day at the latest. During the period of parallel circulation, ATMs distribute only €5, €10 and €50 denominations. After the period of dual circulation, banks are again free to decide upon which denominations are issued by ATMs.

Reprogramming and dispensing of euro cash has been tested on the ATMs currently in use, and general principles have been agreed upon. The exact logistical plan regarding the filling of ATMs with euro banknotes, as well as transportation of the cash needed for filling ATMs will be completed 6 months prior to the €-day.

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

3. Coin collection campaign

A separate campaign for collecting coins will be prepared. Credit institutions and the Cash Centre will participate in the campaign the details of which will be specified 6 months before the €-day. The purpose of the campaign is to provide people with the possibility of bringing their kroon coins to banks prior to the €-day.

Preparations
• Credit institutions, in cooperation with a separate working group created under the cash working

[7] During the exchange period prior to the €-day only euro banknotes are sold for Estonian kroons at the central rate and without a service fee. This means that loose euro coins cannot be bought before the €- day.

[8] The possibility to change money in at least one branch office of one credit institution in each county and in one of the biggest offices of each credit institution in Tallinn must be ensured for 12 months starting from the €-day. In the course of negotiations between credit institutions, agreement must be reached on which branches of which credit institutions in which counties are going to offer this service.

[9] Credit institutions may, on a voluntary basis, extend this period to an earlier starting date.

group of Eesti Pank, will specify the details of the coin collection campaign (including the logistics of coin collection, counting and transfer of amounts into accounts).

4. Cash procurement, frontloading, sub-frontloading, and withdrawal of kroons

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

Frontloading of euro banknotes and coins to credit institutions will take place 3-4 months before the €-day. The objective is to alleviate the transport load and ensure a rapid spread of euro cash throughout Estonia. According to the plan, commercial banks may sub-frontload cash to their major clients 1 month before the €-day. The precondition of sub-frontloading and frontloading is that the euro banknotes and coins are not distributed to the general public before the €-day. Credit institutions have prepared the first forecasts regarding sub-frontloading and frontloading, and the work will continue until the €-day.

The currency changeover comprises two equal logistic tasks – distribution of euro cash and withdrawal of kroons from circulation. The latter will start by a coin collection campaign, which aims to reduce the workload during the exchange period. In addition, credit institutions are recommended to launch general campaigns encouraging people to deposit most of the cash they keep at home.

During the exchange period, kroons will be withdrawn via the retail network and bank offices. As for cash transport, the main emphasis during the dual circulation period falls on the transportation of kroons, the smooth performance of which will be ensured by detailed plans between parties concerned. In order to ensure the security of cash transport, Eesti Pank has concluded a cooperation agreement with the Police Board. If necessary, the Defence Forces will also be involved in the process of storing and safeguarding cash.

Preparations
- Credit institutions have prepared sub-frontloading and frontloading forecasts, which will be specified in the course of further work.
- Institutions associated with frontloading and sub-frontloading will prepare the conditions necessary for a safe preservation of the cash.
- Eesti Pank will make additional preparations for the preservation of increased amounts of cash.
- For the frontloading and sub-frontloading a separate security plan will be introduced, for the compilation and implementation of which relevant authorities will be involved according to need.
- The security plan for the frontloading and sub-frontloading has to be compiled during the budget cycle preceding the €-day in order to guarantee the availability of necessary resources. The operational plan has to be completed 6 months prior the €-day.

5. Euro cash training

Eesti Pank plans to conduct a series of training sessions for cash handlers during 12 months before

the €-day. The purpose is to distribute information regarding the security features of the euro, thereby minimising the spread of counterfeits. In the course of trainings, a number of re-trainers will be trained who will, in turn, train other cash handlers.

The training will be carried out in two stages. In the first stage, representatives of large businesses (max. 50 people) will be trained, and they will redistribute the information in their respective companies. In the second phase, a larger circle of cash handlers will be trained by means of lectures, printed and interactive materials.

Preparations
• Eesti Pank will draw up detailed plans for training and distribution of information 9 months before the €-day.
• Businesses need to forecast their training needs (in general, employees of commercial banks have already been trained) 9 months before the €-day.

6. Introducing the euro as account money

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

6.1. General principles

In account money, changeover to the euro will take place on the €-day as a "big bang", i.e. there will be no transitional period[10]. Kroon accounts will be converted automatically, simultaneously and fully into euro. In converting account money into euro, the exchange rate fixed by the Council of the European Union and the agreed rounding rules will be used.

All transactions carried out from the €-day will be in euro. Customers' account numbers remain the same.

Upon the conversion of account money into euro, customers will be shown the final balance of the kroon account, the exchange rate and the initial balance of the euro account in their bank statement. Advance and contractual payments will be converted by each bank before execution. Kroon cheques can be exchanged only for euro from the €-day. Banks will accept kroon cheques issued before the €-day for six months after the accession to the euro area.

6.2 Adoption of the euro and changes in the interbank settlement systems of Eesti Pank

The settlement systems of Eesti Pank will be converted into euro on the night of the €- day. From the first banking day of the month of the adoption of the euro the settlement systems of Eesti Pank will settle payments only in euro.

There will be no unscheduled interbank settlements on the last night of the circulation of the Estonian kroon. Eesti Pank will guarantee the settlement of kroon payments sent to the EP RTGS

[10] The conversion of bank accounts will take approximately two hours; the conversion of the entire banking system to the euro will take approximately 12 hours.

system on the settlement day before the €-day until 18:59:59 on the next value day (by converting the sum, changing the currency and the account number). The kroon payment instructions that arrive in the RTGS system as of 19:00 remain pending and at the arrival of the next settlement day they will be rejected by the system.

The key preconditions for the changeover of Eesti Pank's settlement systems to the euro have already been fulfilled – on 19 May 2008, Eesti Pank launched the Trans-European Automated Real-time Gross Settlement Express Transfer System TARGET2-Eesti and the functionality of the Settlement System of Ordinary Payments, ESTA, inherently includes the readiness for euro settlements.

Preparations
• Upon joining the euro the current domestic system of express payments, the EP RTGS, must be shut down and the transfer of RTGS settlements to the cross-border settlement system TARGET2-Eesti must be prepared. As the EP RTGS and the ESTA are channels for executing collateral payments and monetary policy transactions (the banks' payments to their required reserve in Eesti Pank), Eesti Pank has to create a business model for guaranteeing the membership of the ESTA and the smooth execution of the Euro area's monetary policy transactions upon the closure of the EP RTGS.

The readiness of the ESTA to change over to the euro needs testing with banks; also the legal framework of the ESTA has to be amended to become euro-based.

6.3 Change of card payments into euro

Card payments will become euro-based from the €-day. The changeover is based on the principle that it should be performed with the shortest possible interruption to cardholders. Consumers must take into account that some interruptions in card payments during the first few hours of the €-day may still occur.

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

Preparations
• New software for payment terminals and cashier systems will be developed. The Card Centre of Banks and commercial banks will agree on common activity instructions. Users of payment terminals will be notified of forthcoming changes.

7. Change of bank services to euro

All bank services will be euro-based from the €-day at the latest. In order to avoid activities piling up in a short period of time, banks may base their services on the euro already prior to the €-day (e.g., contracts, time deposits, etc). The principle to be followed is that customers must be able to use all bank services in kroons, without service fees and exchange rate differences, until Estonia's accession to the euro area.

For bank contracts, the principle of continuity of contracts applies. Therefore, existing contracts do

not need to be amended. The kroon amounts will be converted into euro at the conversion rate fixed by the Regulation of the Council of the European Union. The repayment schedules of loan contracts, leasing contracts, etc may be both in the euro and kroon before the €-day. More specific details are up to credit institutions to decide.

Starting from the €-day, Eesti Pank will discontinue forwarding daily fixings to credit institutions. Foreign exchange rates are accessible and downloadable on the web page of the European Central Bank. Exchange rates are published on the operating days of TARGET. If TARGET is closed during a working day in Estonia (e. g., Easter Monday), the latest published exchange rates are valid.

Compared to the list of currencies the daily exchange rate of which has been published by Eesti Pank, there are ten currencies missing in the list of currencies published by the ECB. Eesti Pank is not going to fix the exchange rates of these currencies in the future.

Those who need additional exchange rate information can use the respective central bank's peg to the euro.[11]
The changeover to the euro results in changes in the logic of displaying exchange rate information. So far the standard in Estonia has been displaying the value of the kroon against one unit of a foreign currency (e.g., in order to purchase 1 USD we need to sell 13.3 EEK). According to the new system, the national currency (EUR) will form the basis of 1 unit and all foreign currencies are shown as vis-à-vis 1 EUR (e.g., 1 EUR purchases 1.22 USD).

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

The reports compiled following the €-day and/or statements submitted to customers regarding the period when the only legal tender in Estonia was the kroon will be in Estonian kroons.

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

In the reports on payment statistics, Eesti Pank currently applies the amount of EEK 200,000 (approximately EUR 12,700) as provided in Regulation (EC) No. 2560 as the margin for declaring transactions. After the changeover to the euro, the amount will be identical to that prescribed in the regulation (EUR 12, 500). The lower margin for transactions that are included in reporting is currently EEK 100,000. In order to ensure the high quality of balance of payments statistics also in the future, the establishment of a common margin depends on the results of the analyses conducted in the next years. As the issue of margins is currently discussed by the European Parliament, it is possible that the margins will be changed.

9. Internal financial accounting and financial reporting of Eesti Pank

Full members of the ESCB must carry out financial accounting and reporting according to

[11] In the case of need, the rules laid down for compiling financial statements or customs procedures should also be taken into account.

common principles. Therefore, full membership of the ESCB sets additional requirements on financial accounting and reporting to Eesti Pank. The task of Eesti Pank is to ensure that their accounting and reporting meet the requirements of the ECB in time for accession to the euro area.

BUSINESS SECTOR

1. Accounting

There will be an immediate changeover in accounting on the €-day – 1 January 2011 – kroon-based accounting will become euro-based.

a) Preparation of annual reports in euro

Annual accounts must be prepared according to the currency valid in Estonia at the end of the accounting period.[12] Since the mandatory changeover to euro-based accounting will take place on the €-day, all reports regarding periods which end on the €-day or later, will be prepared in euro.

b) Conversions in accounting associated with the changeover to the euro

The Estonian Accounting Standards Board prepared a guideline[13] containing more detailed technical regulations for the execution of conversions into the euro and the recording thereof in accounting. The general principle is that the excesses generated from the conversion of the recordings of equity capital are reflected in the recordings of equity capital (share premium accounts, retained profits) and that the excesses generated from the conversion of other recordings are reflected in the income statement of the corresponding period in income and expenses. Based on the draft of this guideline a regulation is prepared for recording the changeover to euro in accounting. An option would be to enforce the necessary provisions by a regulation of the Minister of Finance.

c) Changing the limitations of mandatory auditing and consolidation expressed in kroons in the Accounting Act

By an amendment to law, amounts expressed in kroons in the Accounting Act will be changed into euro, taking into account the official exchange rate of the changeover; the amounts will be rounded up to the nearest multiple of the ten thousand euro[14]. The new financial criteria of mandatory auditing and consolidation are as follows: i) companies' sales revenue (net turnover) and other accounting entities – income of 1,900,000 euro; ii) balance sheet total 960,000 euro. The amounts expressed in euro will be taken as a basis in the event of periods ending on the €-day or later.

Preparations

• The Ministry of Finance, in cooperation with the Estonian Accounting Standards Board, is preparing the necessary amendment motions to the legal acts on accounting.

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[12] In changing over to the euro, it is important to take into account the cycles of the financial year of accounting entities. Most accounting entities' financial years coincide with the calendar year. Changeover to euro-based accounting from 1 January, i.e., from the beginning of the cycle of the new financial year, is therefore a suitable solution. Those accounting entities whose financial year does not coincide with the calendar year will prepare their annual report in the currency valid at the end of their financial year. If the previous financial year ends after 1 January, the annual report must be prepared in euro.

[13] The Draft of the Accounting Standards Board's Guideline is available on the web site www.easb.ee

[14] In rounding up to the nearest 10,000 euro, the current practice must be taken into account, where the same limitations are established in millions of kroons by law, admitting that in less accurate rounding a more significant gap would be generated between current and new limitations.

2. Public limited liability companies

Upon the conversion of share capital and shares, the shareholders must be treated equally and the rights of the shareholders must be preserved pursuant to valid proportions. The following amendments enabling the expression of all financial evaluations essential from the point of view of the activities of an association in euro will be introduced to the Commercial Code:

i) 25,000 euro will be established as the minimum capital of a public limited liability company. The foundation of new companies with share capital expressed in euro will be possible six months before the €-day[15].
ii) The minimum nominal value of shares in public limited liability companies will be 10 euro cents. The nominal value of a share must also be a multiple of the 10 euro cents.
iii) Public limited liability companies will be able to take into use shares without a nominal value. 10 euro cents will be established as the minimum calculated value of a share without nominal value[16]. A public limited liability company will not be allowed to use both types of shares (nominal shares and shares without nominal value).

Preparations
• The Ministry of Justice, in cooperation with the Ministry of Finance, will prepare amendments to the legislation (Commercial Code) necessary for the establishment of these amendments. The amendments to the Act could partly (founding new companies, procedure for simplified alteration of the statutes in the conversion of data into euro) apply at least six months before the €-day.

3. Private limited liability companies

The following amendments enabling the expression of all financial evaluations essential from the point of view of the activities of an association in euro will be introduced to the Commercial Code:

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

Preparations
• The Ministry of Justice, in cooperation with the Ministry of Finance, will prepare the amendment to the legislation (primarily the Business Code) necessary for the establishment of these amendments. The amendments to the Act should apply at least six months before the €-day.

4. Investment funds

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

[15] Additional analyses will be conducted as to whether it would be possible to enforce the amendments facilitating the changeover even earlier.
[16] Establishing the minimum calculated value of unvalued shares in a public limited company will prevent the generation of shares with very little accounted value.

i) a solution which would allow the issuing of shares without nominal value in addition to nominal shares will be made available to the management companies of contractual investment funds[17] (hereinafter *fund*);
ii) in the case of existing investment funds, the management companies must reflect the nominal value of a new share in euro in case they change the conditions of the fund (with the accuracy of at least 1 euro cent);
iii) in the case of new investment funds (those founded after the €-day), 1 euro will be established as the minimum nominal value of a share, and the nominal value must be expressed with the accuracy of at least 1 euro cent;
iv) if a fund has several types of shares, issue of both nominal shares and shares without nominal value will not be enabled for the purposes of clarity and to avoid complexity;
v) if a fund has several types of shares, issue of shares with different nominal values will be enabled;
vi) a solution enabling flexible and cost-effective change of the conditions of a fund (for example, by adding implementing provisions and simplifying the procedure provided for in sections 117-119 of the Investment Funds Act) will be made available to management companies;
vii) in the cases of both voluntary and mandatory pension funds, the requirement of a nominal value will be retained (one of the most suitable possible options is to establish 10 euro as the nominal value for new and existing pension funds); the precision of expressing fractional units and, if necessary, the net value of units will be increased.
viii) the aforementioned amendments will be enforced at least six months before the €-day.

Preparations
• Motions to amend the Investment Funds Act within the framework of the Act on the Introduction of the Euro were prepared by the Ministry of Finance in cooperation with the Financial Supervision Authority, the registrar of the Estonian Central Register of Securities and management companies.

5. Amendment of statutes

The following amendments will be introduced to the Commercial Code with a view to achieving the changeover to the euro in different statutes within an optimal time frame and without causing excessive expenditure for organisations:

i) new legal persons subject to private law will be allowed to register their statutes containing data in euro half a year before the €-day; in order to reduce administrative workload, a solution where instead of a general assembly summoned to make the necessary statute amendments they would be made at a meeting for consolidating the annual report[18];
ii) at the same time, amendment of statutes will be enabled pursuant to a simplified procedure if the amendment is directly conditioned by the changeover to the euro;

[17] Provisions regarding public limited liability companies in the Commercial Code will apply to the nominal value of funds founded as public limited liability companies, which is why this problem does not regard funds founded as public limited liability companies.

[18] Annual reports are usually consolidated from March to the beginning of June, therefore the amendments of the laws should step into force at the beginning of the year.

iii) from the €-day, state registers will not register any amendments to statutes unless the data contained in the statutes is transferred to euro.
iv) at least half a year before and a year after the €-day, entrepreneurs will be granted state fee discounts on entering into the commercial register the amendments in the company's share capital resulting from the conversion of Estonian kroons into euro (the activities subject to state fee discount include the amendment of articles of association, changes in capital, and if necessary, notification in the official publication *Ametlikud Teadaanded*).

Preparations
• The Ministry of Justice, in cooperation with other ministries, will prepare the amendments to the legislation necessary for the enforcement of these amendments. The amendments should enter into force half a year before the €-day.

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

Special regulations regarding documents without a term and/or certifying advance payments will be established.

The following provisions will be introduced to the Act on the Introduction of the Euro:
i) at least three months prior to the changeover, a notification obligation concerning the period of validity of tickets and other documents previously issued by the authorities and conditions for use thereof will be established for all publicly owned institutions;
ii) a period of at least three years from the issue of the euro will be prescribed as the minimum period of validity of postage stamps;
iii) three months following the €-day will be established as the minimum period of validity of local transport tickets in kroons;
iv) documents certifying advance payment and which indicate a term of validity will be valid according to the specified term.

Preparations
• The Ministry of Finance together with the Ministry of Economic Affairs and Communications prepared the corresponding provisions for the Act on the Introduction of the Euro by the first quarter of 2006.

7. Cash accepting automated machines

No special euro changeover-related regulations regarding parking machines, slot machines and other automated machines, which accept cash, will be adopted. Since the only legal tender in Estonia will be the euro from the end of the period of parallel circulation, all cash-accepting automated machines should be switched to euro by the end of that period.

TAXATION

In the sphere of taxation, issues primarily related to the conversion of amounts fixed in kroons and prescribed in the Taxation Act and various tax related acts, as well as tax amounts determined/declared or already determined/declared regarding previous periods, will arise in association with the changeover to the euro.

1. Rounding rules

The conversion of amounts fixed in kroons in the Taxation Act or other acts concerning taxes and corresponding regulations into euro will be based on rounding principles.

The following will be subject to changes:

i) the accuracy level of the accounting of tax amounts:
   a) *requirement of full kroons* – Section 97 of the Taxation Act; subsection 46 (2) of the Income Tax Act; subsection 28 (4) of the Alcohol, Tobacco and Fuel Excise Duty Act; subsection 3 (2) of the Packaging Excise Duty Act; subsection 65 (1) of the Customs Act; subsection 9 (9) of the Social tax Act;
   b) *0.50-kroon accuracy* – section 62 of the Alcohol, Tobacco and Fuel Excise Duty Act;

ii) minimum tax and interest amount to be determined:
   a) subsection 88 (2); subsection 100 (1); subsection 106 (6) and subsection 199 (3) of the Taxation Act (50 EEK);
   b) subsections 7 (3) and (6) of the Land Tax Act (20 EEK);

iii) certificate concerning the absence of tax arrears, issued if tax arrears do not exceed 100 kroons – subsection 14 (5) of the Taxation Act;

iv) subsection 97 (4) of the Customs Act – limit of compensation of the costs of destroying confiscated goods – 50 EEK;

v) tax rates: Alcohol, Tobacco and Fuel Excise Duty Act; Gambling Tax Act; Heavy Goods Vehicles Tax Act; Packaging Excise Duty Act;

vi) limitations in tax Acts: basic exemption; amounts deductible from income; minimum amount of advance payment of social tax of self-employed persons; limitation for the generation of an obligation to register the taxpayer as a payer of value added tax;

Preparations

• Proposals for solutions were discussed in the business environment working group in cooperation with the Tax and Customs Board, and in consultation with market participants. Upon conversion to euro of amounts provided for in tax acts, the effect of rounding on the state budget will be taken into account. The Ministry of Finance has prepared a draft on the legislation that need to be amended.

2. Submission of data concerning previous periods

An immediate changeover will take place in taxation on the €-day. The expression of data concerning previous periods will be based on the principle that accounting is performed in original currency. People will provide their accounts in respect of previous periods in kroons, and the Tax and Customs Board will convert the amounts into euro (except if initial accounting had already been performed in euro).

a) Submission and amendment of declarations

Information reflecting monetary values provided to the Tax and Customs Board on hard copies or in electronic form will be expressed in the currency valid in the corresponding period – i.e., information concerning the period prior to the €-day will be specified in kroons.

All accounting and settlements with the Tax and Customs Board, i.e., submission (including the sequence of calculation) and amendment (including conversions) of declarations (turnover declarations, customs declarations etc) will be performed in the currency that was valid during the taxation period. The sequence of calculations will be performed in kroons and the amount to be reimbursed/paid will be converted into euro pursuant to the general conversion rules.

b) Financial liabilities determined for the previous period

Any financial liabilities of the previous period determined or to be determined (fines, tax notices, notice of tax assessment, reports, declarations, amount of income tax to be reimbursed for the previous period or additional amount of income tax due) will be calculated in kroons and, upon the determination/payment of the amount it will be converted into euro pursuant to usual conversion rules. Amounts payable in advance on the business incomes of self-employed persons will be calculated in kroons and then converted into euro.

c) Tally cards of the Tax and Customs Board

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

d) Schedules of payment of tax arrears in instalments

Previously compiled schedules of payment in instalments will be automatically converted into euro on the basis of the conversion rate valid at the time of the changeover pursuant to general conversion rules. To this end, no new schedule will be signed. From the point of view of the Tax and Customs Board, being prepared to issue instalment schedules in euro from the €-day is important. The Tax and Customs Board will not issue any instalment schedules 10 days prior to the €-day.

e) Responding to information inquiries

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

Preparations

• The Ministry of Finance, in cooperation with the Tax and Customs Board, has prepared the corresponding draft legislation.

3. Revenue stamps

Regarding revenue stamps[19], there is an objective to find as "cheap" a solution as possible for using the previously issued revenue stamps still in circulation at the time of the introduction of the euro. In practice, revenue stamps may be put into circulation within three years of their issue.

[19] The tax stamp indicates the maximum sales price of alcohol and tobacco goods.

i) Revenue stamps on products expressed in kroons may be utilised in normal circulation prior to the introduction of the euro, notwithstanding the duration of time, or at least a transitional period of 1.5 to 2 years will be allowed.
ii) Indication of dual prices on revenue stamps (amounts expressed both in kroons and euro) has also been under consideration, but this may not be the most expedient solution. Supplementary amendments to the design of revenue stamps (in addition to designing revenue stamps with amounts indicated in euro) will constitute additional expenditure and a situation where revenue stamps with three different designs are in circulation at the same time may cause some confusion.

Amounts expressed in kroons on revenue stamps will be converted into euro pursuant to general conversion rules.

Preparations
• The Ministry of Finance, in cooperation with the Tax and Customs Board, has prepared the corresponding draft legislation

4. Local taxes

Amounts are expressed in kroons in local tax regulations, and they must be expressed in euro. To this end, it is necessary for local governments to be given notice of the necessity for amendment a long time in advance.

Preparations
• The communications work group will, among other notifications, also notify local governments.

PUBLIC SECTOR

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

The Ministry of Finance has prepared a draft Act on the Introduction of the Euro, which proceeds from the following principles:

i) taxes will be rounded according to general rounding rules;
ii) benefits will be rounded in the most favourable direction for the beneficiary
iii) fines and penalty payments will be rounded upwards
iv) claims and obligations of the state occurring prior to the €-day will be converted into euro pursuant to the general rounding rule.

According on the calculations based on the transactions and the state budget of 2009, the additional costs to the state budget for the conversion of kroons with an accuracy of 10 euro cents – 1 euro remain in the range of 260–300 million kroons. In case of rounding with the accuracy of 1euro cent the additional revenues would amount to 290 million kroons.

2. State accounting

There is no need for major reorganisation in state accounting. The Estonian Accounting Standards Board has prepared guidelines for the changeover to the euro, which, due to the specifics of the public sector, will not need to be complemented.

The state's annual report for the year preceding the €-day will be compiled in kroons.

For the Guidelines of the Estonian Accounting Standards Board, see the explanations of the business environment working group.

3. Statistics

The methodological base for the conversion of time-series data has been prepared in the Statistics Office. Data communicators will be notified of changes in data communication. To this end, a communication programme intended for partners will be compiled. The time-series will be converted by the end of the year preceding the €-day.

4. Information technology

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

i) IT-systems will change over to the euro on the official day of changeover. Kroons and euro will not be used simultaneously. As a rule, accounting concerning earlier periods will continue to be performed in kroons.

ii) Ministries must ensure the availability of funds for covering expenditure related to the reorganisation of information systems in the budget.
iii) Ministries must continue to ascertain their readiness and the readiness of their cooperation partners to implement the necessary changes.
iv) Physical IT-developments must be started 5-6 months before the date of the changeover at the latest. The whole process from the announcement of the public procurement, specification of actual operations and conclusion of the contract until the completion of the IT solution may take up to 1 year, depending on the system.

General coordination will be performed in cooperation with the Ministry of Finance and the State Information System Department of the Ministry of Economic Affairs and Communications. A briefing day for all the IT-experts of Estonian state agencies was organised in the second half of May 2006. It covered, among other things, the effect of the euro adoption on the IT-systems of the state. The necessary changes will be covered in the Information policy action plan. The latest calculations indicate that the reorganisation of the state IT-systems may cost up to 120 million kroons.

5. Display of dual prices in the public sector

In general, in the same manner as entrepreneurs, state agencies are recommended to follow the principle of dual display of prices half a year prior to and after the €-day in order to ensure the transparency of transactions made by state agencies and also to keep partners and customers well informed. Price lists and final amounts on invoices and notices will be displayed in both kroons and euro.

State agencies must prepare for the dual display of prices by working out the best way of showing dual prices, being technically prepared for displaying final amounts in two currencies on invoices and notices, designing action plans for informative activities, etc. The listed activities should be completed seven months before the €-day.

Those agencies, which have more financial relations with the public (e.g. the Tax and Customs Board, agencies collecting levies and fees, the Social Insurance Board, the Agricultural Registers and Information Board, other agencies allocating aid awards etc.) should consider developing information materials providing additional explanations and plan funds for this purpose into their budgets.

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

The settlement system of the State Treasury must be re-programmed and the relevant regulations amended (rule of cash service, procedure for entering state revenue in the budget etc):

i) Mapping of functions to be changed and preparation of the terms of reference for information technology (completed by the end of January of the year preceding the €-day);
ii) IT-works and testing, preparation and coordination of regulations (from 1 March to 30 December of the year preceding the €-day);
iii) training and briefing of users (from 1 October to 30 November of the year preceding the €-day).

Ministries must be prepared to introduce changes in their IT systems related to the requirements of payment orders (BIC-based account numbers, account numbers, partially changeable reference numbers).

7. State fees

State fees will be converted to euro taking into account the best interests of people and the entities charging state fees:

i) the rate of state fee must cover both direct and indirect expenditure related to the performance of an act, which is why the state fee rate must not fall below the amount to cover expenditure as a result of conversion.
ii) Up to 10 euro will be accepted in cash (100 kroons at the moment). Abolition of cash payments is not planned[20].
iii) As with the private sector, bodies charging state fees will be required to perform cash transactions in both currencies during the period of dual circulation.

The new State Fees Act is in force since 1 January 2007, which will be further amended for the conversion of state fee rates into euro as soon as the final state fee rates are agreed upon.

State fee rates will be converted into euro in cooperation with state and local government entities performing acts subject to state fee.

8. Local governments

The discussion group formed to deliberate fiscal issues between the inter-ministerial committee of the Government of the Republic and the delegation of the Local Government Association will continue:

i) to introduce to representatives of local governments different aspects related to the changeover to the euro
ii) to discuss the possibilities of organising training events, briefing days, etc targeted at local governments;
iii) the analysis of the financial implications related to the euro adoption and the possible state compensation for accompanying costs (incl the decline in the receipt of land tax as a result of the rounding of tax rates).

For local tax issues see the taxation chapter.

[20] Regarding state fees transactions, despite the tendency for growth in electronic payments, the possibility of performing cash payments should remain, especially in the event of the acts of the Citizenship and Migration Board and Estonian representations. As at November 2006 there are at least 35 agencies which accept payment in cash.

CONSUMER PROTECTION

1. Dual display of prices of goods and services

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

Consumers will have difficulty accepting the new currency overnight. The new bank notes and prices require getting used to, especially given the exchange rate, which does not allow for a simple conversion. The period of the dual display of prices (six months prior to and six months after the €-day) will enable consumers to get used to prices in the new currency and adapt to new numerical values. At the same time, the obligation to display prices in both currencies will be limited in order to prevent the imposition of large additional expenditures on entrepreneurs, which would in turn produce inflation.

The Regulation of the Minister of Economic Affairs and Communications No 76 of 14 April 2004 "Requirements on the display of the prices of goods and services" was amended (entered into force on 1 September 2006) by supplementing the rules of converting prices from one currency to another. The mandatory period for the dual display of prices will be provided by a separate amendment (and is likely to cover the period of 6 months before and 6 months after the €-day). During that period, at points of sale the traders are obligated to display the prices of goods and services on price tags and on price lists and the unit prices of unpackaged goods as well as service prices or the tariffs in both the kroon and the euro in printed or written form. Thus, consumers will be provided with the dual display of prices in all shops and points of sale selling basic commodities where consumers most often carry out their daily purchases. The period when the dual display of prices is obligatory will be established by a separate regulation.

For the time being, the dual display of prices is recommended.
Traders are recommended to display prices in two currencies in as many ways as possible (on websites, in promotional materials, catalogues, total amounts on invoices and purchase cheques etc). Display of payable amounts in two currencies on invoices will be essential prior to the €-day in order to prevent situations in which customers calculate amounts payable in euro using an inaccurate conversion rate. The calculation of prices or amounts charged from consumers from one currency to another must follow the procedures laid down in the above-mentioned Regulation of the Minister of Economic Affairs and Communications.

2. "Fair rounding"

"Fair rounding", which requires the use of the accurate conversion rate, will play an important role in minimising the inflation related to the changeover.

Rules for conversion and rounding of prices were established by the above-mentioned regulation of the Minister of Economic Affairs and Communications. Conversion will be performed on the basis of the central conversion rate of 15.6466. Rounding must be carried out to one euro cent accuracy. Prices may also be shown at a value less than one euro cent (e.g. 0.008 euro), which

will, in the case of cheaper service tariffs, help to avoid inflation resulting from rounding.

In order to instruct traders in displaying prices dually, the Ministry of Economic Affairs and Communications has, in cooperation with the Consumer Protection Board, Estonian Traders Association and the Estonian Chamber of Commerce and Industry, prepared a guideline, which is available on the web page of the Ministry of Economic Affairs and Communications.

3. Price comparisons

Changes in price levels will be monitored prior to and after the introduction of the euro in order to obtain an overview of the changes related to its introduction. The public will be informed of the changes in prices in order to:

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

The Consumer Protection Board is carrying out regular (monthly) price monitoring as regards most frequently consumed food products, basic commodities, and most frequently used services. Price monitoring will continue at least until half a year after the €-day. The results of price monitoring will be published regularly in the newspaper Maaleht. Commissioned by the Ministry of Agriculture, Estonian Institute of Economic Research conducts price monitoring of basic food products throughout Estonia. The price information is available on the web site of the Estonian Institute of Economic Research at www.ki.ee.

COMMUNICATION

The objective of the Estonian euro changeover communication strategy is to ensure that all residents of Estonia be adequately informed of the impacts and practical changes it will bring. The communication strategy and the associated action plan have been completed in cooperation between the communications working group and interest groups representing the most important entrepreneurs and consumers.

The structure of the euro changeover communication action plan has two levels: informing the public in general and providing more specific information to target groups. Most information materials are designed for the most important target group – the general public. Separate information materials are planned for each target group in need of specific treatment (entrepreneurs, the media, children in kindergartens and primary schools, pensioners, people with special needs etc).

Information materials include brochures, a euro website, euro information hotline, meetings and training for different target groups, newspaper articles, television programmes, gadgets with euro insignia, a moving exhibition, outdoor advertising, etc. Information will be communicated by means of direct mail, national and local media channels, and by using networks of companies and consumer organisations.

The Estonian euro changeover communication strategy and action plan were approved by the National Changeover Committee at their meeting on 21 June 2005.

The communication activities are financed with the help of the European Commission that signed a partnership agreement with the Ministry of Finance within the framework of the PRINCE programme (*Programme d'Information des Citoyens Européens)* on 8 November 2005. The term of validity of the agreement was extended in January 2008.

ANNEXES

Annex 1. Composition of the Working Groups

Changeover Committee:
Foreman: Tea Varrak, Ministry of Finance, Secretary-General
Members:
Aare Järvan, State Chancellery, Counsellor to the Prime Minister
Marika Priske, Ministry of Economic Affairs and Communications, Secretary-General;
Märt Kraft, Ministry of Internal Affairs, Secretary-General;
Margus Sarapuu, Ministry of Justice, Secretary-General;
Andres Sutt, Eesti Pank, Deputy Governor;
Juhan Lepassaar, State Chancellery, Head of EU affairs.
Kaja Tael, Ministry of Foreign Affairs, Deputy Secretary-General.

Eesti Pank and credit institutions WG:
Foreman: Rein Minka, Eesti Pank, Deputy Governor
Members:
Katrin Talihärm, Estonian Banking Association, Executive Director;
Arvo Juhkami, AS Sampo Pank;
Valmar Moritz, AS Eesti Krediidipank;
Sven Raba, AS SBM Pank;
Jüri Kats, Tallinn Business Bank Ltd;
Regina Raag, Nordea Bank Estonia Branch;
Andres Trink, Swedbank;
Eero Varkki, Baltic Investment Group Bank AS
Signe Madisson, Bayerische Hypo- und Vereinsbank AG Tallinn Branch;
Sirli Välja, AS Parex Bank Estonia Branch;
Jaan Tamm, SEB Eesti Ühispank;
Eero Varkki, Baltic Investments Group Bank AS
Ingrid Krieger, Financial Supervision Authority;

Five sub-working groups have been created under Eesti Pank and credit institutions working group: i) card payments working group, ii) account money technical working group, iii) account money business processes working group, iv) cash working group, v) ATMs working group.

Business environment WG:
Foreman: Veiko Tali, Ministry of Finance, Deputy Secretary-General
Members:
Sören Meius, Ministry of Finance, Senior specialist of Entrepreneurship and Accounting Policy Department;
Jaak Tõrs, Eesti Pank, Head of the Financial Sector Policy Division;
Merike Kompus, Ministry of Economic Affairs and Communications, Deputy Secretary-General;
Mait Palts, Estonian Chamber of Commerce and Industry, Head of Economic
Policy and Legal Department;
Marek Sepp, Estonian Employers' Confederation, lawyer;
Urmas Volens, Ministry of Justice, Deputy Secretary-General;

Kilvar Kessler, Financial Supervision, Board member.
Julia Segerkrantz, Estonian Central Securities Department, Executive Director;
Eero Kaup, Estonian Accounting Standards Board, member

Public sector WG:
Foreman: Tiina Tamm, Ministry of Finance, Deputy Secretary-General
Members:
Kalju Kukk, Ministry of the Environment, Deputy Director of Financial Department;
Malle Soidla, Ministry of Foreign Affairs, Director General of Financial Department;
Kaie Koskaru, Ministry of Justice, Head of the Finance and Property Management Department;
Peeter Seestrand, Ministry of Agriculture, acting Deputy Secretary-General for Foreign Affairs and Development Department;
Anu Angerjas, Ministry of Education and Research, Deputy Director of Analysis and Planning Department;
Margit Pado, State Chancellery, Head of Financial Department;
Indrek Eensaar, Ministry of Culture, Head of IT Division;
Marelle Erlenheim, Ministry of Social Affairs, Secretary-General;
Andres Uusma, Ministry of Economic Affairs and Communications, Head of Budget Department;
Mihkel Tammet, Ministry of Economic Affairs and Communication, Head of Procurements Management Department;
Riho Kuppart, Ministry of Internal Affairs, Head of Financial Department;
Martin Põder, Ministry of Finance, Head of Department of EU and International Affairs;
Ülle Mathiesen, Ministry of Finance, Head of State Treasury Department;
Ruth Paade, Tax and Customs Board, Head of Revenue Department;
Kaja Sõstra, Statistics Estonia, Head of Methodology Department.

Consumer protection WG:
Foreman: Merike Kompus, Ministry of Economic Affairs and Communications, Deputy Secretary-General
Members:
Tiit Rebane, Ministry of Finance, Counsellor to the Legal Department;
Reet Teder, Estonian Chamber of Commerce and Industry, Head of Economic Policies and Legal Department;
Marika Merilai, Estonian Traders Association, Managing Director;
Helle Aruniit, Estonian Consumer Protection Board, Managing Director;
Riina Piliste, Ministry of Economic Affairs and Communications, Counsellor to the Internal Market Department, Trade Division;
Linda Läänesaar, Estonian Consumers Union, Executive Director;
Anne Laar, Ministry of Economic Affairs and Communications, Head of the
Internal Market Department, Trade Division;
Veiko-Joel Kokk, Eesti Pank, Deputy Director of Legal Department.

Legal issues WG:
Foreman: Tiit Rebane, Ministry of Finance; Counsellor to Legal Department.
Members:
Kadi Viira, Eesti Pank, Head of Legal Department;
Veiko-Joel Kokk, Eesti Pank, Head of Institutional Law Division;
Külliki Puusild, Ministry of Justice, Counsellor to the Private Law Division, Legal Policies

Department**;**
Sören Meius, Ministry of Finance, Senior specialist of Entrepreneurship and Accounting Policy Department.

Communications WG:
Foreman: Märt Kivine, Ministry of Finance, Counsellor.
Members:
Livia Kulm, Eesti Pank, Head of the Public Relations Bureau of the Department of International and External Relations;
Kaja Kell, Eesti Pank, Head of the Public Relations Bureau of the Department of International and External Relations;
Ingrid Mitt, Senior Specialist of the Public Relations Bureau of the Department of International and External Relations;
Tanel Ross, Eesti Pank, Head of the Department of International and External Relations
Inga Jagomäe, Director of Government Communication Office;
Villu Känd, Government Communication Office, Head of EU Information Unit;
Kristi Jõesaar, Ministry of Finance, Head of Public Relations Department;
Martin Põder, Ministry of Finance, Head of Department of EU and International Affairs;
Kalev Vapper, Ministry of Economics and Communication, Head of Public Relations Department;
Jana Zdanovitš, Ministry of Social Affairs, Media Counsellor to Public Relations Department;
Pille Vaher, Representation of the European Commission in Estonia, Press officer;

WG of monitoring and accounting for the fulfillment of criteria for the changeover to the euro
Foreman: Ivar Sikk, Ministry of Finance, Deputy Secretary-General
Members:
Andrus Säälik – Ministry of Finance, Head of the Department of Macroeconomic Policies;
Agnes Naarits – Statistics Estonia, Department of Public and Financial Sector Statistics;
Viktoria Trasanov – Statistics Estonia, Department of Price and Wage Statistics;
Ülo Kaasik – Eesti Pank, Head of Central Bank Policies Department.