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REPORT FROM THE COMMISSION

**TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN
CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE
AND THE COMMITTEE OF THE REGIONS**

**Fifteenth Report on the practical preparations for the future enlargement of the euro
area**

{SWD(2014) 341 final}

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

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

1. INTRODUCTION

The Council decided on 23 July 2014 that Lithuania fulfils the necessary conditions for the adoption of the euro¹. Lithuania will adopt the euro on 1 January 2015 ("€day"). This will bring the total number of euro area Member States to nineteen, including now all three Baltic states. The conversion rate was irrevocably set at 3.45280 Lithuanian litas per one euro², which corresponds to the previous central rate of the litas in the EU's exchange rate mechanism (ERM II).

Lithuania's practical preparations for the changeover have now entered the final phase. Following the first dedicated report of the Commission on Lithuania's practical preparations³, this Report assesses further progress made since mid-June until end of September 2014. It addresses the preparations for the introduction of euro cash, the measures put in place for protecting consumers in the changeover period, such as the "Memorandum on Good Business Practice upon the Introduction of the Euro", and the communication campaign.

The Commission Staff Working Document attached to this Report provides details on the preparations for the introduction of the euro in the remaining Member States that have not yet adopted the single currency and do not have a legal opt-out.

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

Since the last Commission report, overall significant progress has been achieved in the practical preparations of Lithuanian authorities and involved stakeholders.

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

Lithuania's National Changeover Plan⁴ was approved by the Government on 26 June 2013 and amended in December 2013 and in June 2014. It is supplemented by an Action Plan for the Implementation of the National Changeover Plan⁵. Preparations are well underway. The

¹ Council Decision 2014/509/EU of 23 July 2014 on the adoption by Lithuania of the euro on 1 January 2015 (OJ L 228, 31.7.2014, p. 29).

² Council Regulation (EU) No 851/2014 of 23 July 2014 amending Regulation (EC) No 2866/98 as regards the conversion rate to the euro for Lithuania (OJ L 233, 6.8.2014, p. 21).

³ Report from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions - Fourteenth Report on the practical preparations for the future enlargement of the euro area of 23 July 2014 - COM(2014) 489 final.

⁴ Available at <http://www.lb.lt/preparation>.

⁵ Available at <http://www.lb.lt/preparation>.

adaptation of the legal system is ongoing. Around 120 draft laws related to the introduction of the euro are being considered by the Seimas during the autumn session.

More than 200 civil servants at government and municipal level have been trained on the euro adoption and its practical implications with a view to enabling them to train their colleagues.

Contingency planning of the public institutions involved in the changeover including the interoperability of contingency plans is ongoing. Against the background of the increased security risk, police officers have received dedicated training and measures have been envisaged to enhance the safety of cash transports by the Cash-in-transit sector during the changeover process.

2.2. Preparations for the cash changeover

The changeover in Lithuania will follow the "big bang" changeover scenario⁶ with a dual circulation period of 15 calendar days.

370 million euro coins bearing the Lithuanian national sides featuring Vytis, an armoured knight on horseback and **132 million euro banknotes** of various denominations are required for replacing the litas coins and banknotes in circulation and for the stocks considered necessary for 2015. Following the Council decision of July 2014, the Lithuanian Mint has started minting the Lithuanian euro coins. By the end of September, 45% of the coins to be minted in 2014 were minted. The required euro banknotes have been borrowed from Deutsche Bundesbank.

Frontloading of euro coins to credit institutions has started on 1 October 2014 with frontloading of euro banknotes to follow as of 1 November 2014. Sub-frontloading of banknotes and coins to commercial banks' major clients will commence on 1 December 2014. Post offices will be sub-frontloaded only by the end of December. According to a first estimate, euro cash with a total value of 703.7 million euro (some 32.5 million euro banknotes and 168.2 million euro coins) will be required for frontloading and sub-frontloading. The Bank of Lithuania recommends in its Guidelines on Cash Changeover of March 2014 that banks take into account the extra need for smaller denomination banknotes during the first days of the changeover when assessing their frontloading needs. According to a Memorandum of Understanding on good practice regarding the preparation of the euro adoption in Lithuania which was concluded between the Bank of Lithuania and nine commercial banks in July 2014, small enterprises may take advantage of favourable conditions for sub-frontloading during the last five calendar days of 2014.

900,000 euro coin starter kits for the general public will be available as of 1 December. Packed in plastic bags, the starter kits will each contain a mix of all Lithuanian euro coins denominations (value of one kit: EUR 11.59). The starter kits for citizens will be sold at three cash offices of the Bank of Lithuania, in 343 bank branches and at least 330 post offices. **Retailers** may choose among **two sizes of starter kits**: kits containing EUR 111.00 (tentative number: 60,000 kits) and 50,000 kits containing EUR 200.00. Furthermore, there will be specific kits available for **collectors** (value of each kit: EUR 3.88) as of €day (35,000 coin sets of brilliant uncirculated quality and 7,000 sets of proof quality).

⁶ The euro banknotes and coins will be introduced on the same day the euro becomes Lithuania's currency. The big-bang scenario has been used in all Member States which joined the euro area after 2002.

With a view to relieving the dual circulation period, it will be very important to further reduce the volume of litas cash in circulation before €day. Since the beginning of 2014, the volume of **litas cash in circulation** has decreased only by 15%, starting from a rather high level. About 80 million litas banknotes and 1.2 billion litas coins still have to be withdrawn. Withdrawal of litas cash including the targeted phasing-out of high denomination banknotes should continue at a steady pace to reach 50% by the end of 2014.

Further to the Memorandum of Understanding signed with the Bank of Lithuania, commercial banks will incentivise customers to deposit litas cash on bank accounts and promote non-cash payments to clients. Moreover, banks will raise the awareness of customers as regards the advantages offered by non-cash settlements. Free of charge depositing of banknotes is already available at automatic teller machines (ATM) allowing cash deposits (R-ATM) and bunch note acceptors (BNA) (241 out of a total of 1,239 R-ATM and BNA). These ATM and BNA will continue to accept litas banknotes even after €day when ATMs will dispense only euro banknotes. It should be ensured that customers receive technical support during the changeover period by dedicated staff. The Bank of Lithuania offers unrestricted exchange services for litas coins into banknotes until €day.

As a rule, change will have to be given exclusively in euro as of €day. This will be particularly challenging for retailers. Banks have agreed in the Memorandum of Understanding to limit the number of high denomination banknotes in litas towards the end of 2014 and to ensure that businesses receive smaller denomination euro banknotes during the sub-frontloading. Moreover, in early 2015 banks will only dispense smaller denomination euro banknotes in branches and ATMs. The Cash Management Recommendations for Businesses issued by the Bank of Lithuania and the Ministry of Finance in April 2014 underline that businesses should have enough small denomination euro banknotes and euro coins in all denominations available for use as change.

On €day, all 1,193 ATMs in Lithuania will dispense euro banknotes by the early hours of 1 January 2015. The Lithuanian banking sector comprises 312 bank branches offering cash services. These branches and 31 additional branches which usually do not offer cash services will provide unlimited cash exchange services (banknotes and coins) free of charge until 30 June 2015. 330 post offices will change litas cash up to the value of EUR 1,000 per transaction free of charge until 1 March 2015. During the same period, litas cash will also be exchanged free of charge at 11 credit unions. The exchange of high amounts (at bank branches: more than LTL 15,000; the Lithuanian Post may set a different threshold for post offices) is subject to a three days' notice in writing. As of 1 July 2015, 89 bank branches will continue to provide unlimited and free of charge exchange services (litas banknotes) for six more months. The Bank of Lithuania will change unlimited amounts of litas cash into euro for an unlimited period of time and free of charge. The adjustment of point-of-sale (POS) terminals is envisaged for December 2014 with a view to switching instantaneously to euro on 1 January 2015.

Some banks intend to reinforce the staff in branches handling cash operations and/or establish additional counters at the end of 2014 and during the first days after €day. Counting and storage facilities in branches will be adjusted. Given that regular opening hours of bank branches in Lithuania are comparably long, it is not envisaged to extend opening hours of all branches during the changeover. Nine commercial banks will however extend working hours of their customer service units at the end of this year and at the beginning of next year. Some 50 branches are expected to be open in the afternoon of 1 January 2015 which is a public holiday in Lithuania and 50% of all bank branches should be open on Saturday, 3 January.

Post offices will not be open on €day but on the first weekend of January. Out of 330 post offices, 189 provide regular cash services and will have extended opening hours in January. The remaining post offices will be supported by mobile cash teams during the changeover period, which will provide cash services three hours a day.

Commercial banks' accounts with the Bank of Lithuania will be credited on the same day when coins are deposited, with corrections being made after the counting of the coins. Banks have signalled that they will take the same approach as regards business clients relying on quick crediting of cash (e.g. vending machine operators), so as to avoid delays in crediting coin deposits.

Preparations for the cash changeover are well advanced and most of the Commission's recommendation provided during the technical assistance missions and in the Fourteenth Report on the practical preparations for the future enlargement of the euro area have been taken into account.

It is of particular importance that measures for decreasing litas cash in circulation are stepped up towards €day.

The preparations of the financial and banking sector seem overall well on track. There will be a considerable extra workload and much larger number of customers in the first days of January 2015. Where not yet envisaged, banks should take additional measures to avoid long queues. It should be ensured that customers experiencing difficulties with the self-service cash-in machines get support during the changeover period by dedicated staff.

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

Considering that euro-related price increases are one of the main concerns voiced by Lithuanian citizens (see Section 3 below), it is particularly important that Lithuanian authorities take all necessary steps both to prevent abusive practices and dispel erroneous perceptions of the evolution of prices.

The period of dual display of prices in both litas and euro has started on 23 August 2014. Dual display of prices has to continue at least six months following the euro adoption date. With a view to making it easier for citizens to get fully accustomed to the euro, it is recommended to take regulatory action ensuring that the dual display of prices will end by 1 January 2016. This date should be clearly communicated to the public.

In addition to regular monitoring of price changes of 40 most popular goods and services, from the start of the dual display period in August 2014 until mid-2015, the average retail prices of 100 homogeneous consumer goods and services is monitored and statistical information is regularly published. Experience gained in previous changeovers has shown that certain services (e.g. hairdressers, dry cleaning and restaurants and cafés) are likely to be affected by changeover-related increase of prices. These services have been included in the list. According to the first price monitor comparing price changes in August to July 2014 prices have remained relatively stable for most products and changes have mostly been driven by seasonality and discounts. Overall, prices for services have slightly increased.

On 18 August 2014, the "**Memorandum on Good Business Practice upon the Introduction of the Euro**" was launched in a public event. By signing the Memorandum, subscribers (e.g. retailers) commit in particular not to use the adoption of the euro as a pretext for increasing prices of goods and services, to apply the official conversion rate and rounding rules and to indicate prices in both currencies (litas and euro) clearly and understandably, and not to mislead consumers. Subscribers are entitled to use a special logo.

The Lithuanian authorities aim at getting on board as many subscribers as possible, reaching out to businesses on a local level by involving community leaders and NGOs. The total number of companies selling goods and providing services in Lithuania is around 59,8 thousand. As at mid-October 2014, more than 2,300 subscribers had joined the Memorandum, comprising 48 business associations, 2,234 companies (corresponding to 8,379 points of sale and services) and 56 municipalities. Considering that euro adoption is approaching very quickly, Lithuanian authorities should step up the promotion of the Memorandum. Stakeholders such as the Chambers of Commerce and business associations should subscribe to the Memorandum if not yet done and promote the Memorandum vis-à-vis their members. Further efforts should also be taken as regards the subscription of proximity businesses to the Memorandum. Their pricing policy is an important factor determining the overall perceptions of inflation.

Monitoring of compliance with the requirements for price display and conversion (e.g. rounding rules) and the correct implementation of the Memorandum is coordinated by the State Consumer Rights Protection Authority and involve various institutions such as the State Food and Veterinary Service and the State Non-Food Products Inspectorate. Since the start of the dual display period, more than 350 inspectors have been checking sales and services supply points across Lithuania. It is envisaged to carry out some 30,000 checks until 30 June 2015. Infringements can be sanctioned by a warning (first-time infringement by a natural person) or fines (repeated infringements of natural persons or any infringements by legal persons). Subscribers not correctly implementing the Memorandum lose the right to use the logo of the campaign. In case of undue price increases or otherwise abusing the euro adoption, they will be enrolled into a blacklist which will be made publicly available on the euro changeover website (<http://www.euro.lt/>). By 31 August, 625 inspections had been carried out which revealed 64 infringements most of which consisted in prices not being displayed in two currencies (28) and rounding mistakes (20). Some 25 warnings were addressed and six fines (LTL 25 each) were imposed.

Citizens may submit complaints on price display and conversion to authorities via the toll-free Euro Hotline, by e-mail or by marking the respective point of sale or services on an interactive map provided on the website of consumer associations. Suspicious price increases should be properly investigated and corrective action taken as quickly as possible, preferably within a maximum of 48 hours.

Lithuanian authorities should take all efforts to achieve the highest possible subscription rate to the Memorandum on Good Business Practice. Stakeholders such as the Chambers of Commerce and business associations should subscribe to the Memorandum if not yet done and promote it vis-à-vis their members. Further efforts should also be taken as regards the subscription of proximity businesses. All 60 municipalities should subscribe to the campaign.

Information on price developments after €day should be published already in the beginning of January 2015.

It is recommended to make sure by regulatory means that dual display of prices ends by 1 January 2016 and to ensure that this end date is clearly communicated to the public, so that it makes good use of the period of dual display of prices to learn the new scale of value.

2.4. Changeover preparations in rural areas

A thorough planning and preparation of the changeover procedures in rural areas is particularly important for a smooth changeover in Lithuania, since Lithuanians' payment habits are rather cash oriented. Lithuanian authorities have been mapping the coverage of remote areas with cash points (post offices, bank branches and ATMs).

The 60 Lithuanian municipalities have been provided with a checklist of euro changeover-related preparatory actions. During the final phase of the changeover, full implementation of the actions identified on the checklist should continuously be monitored.

The involvement of the Lithuanian Post in the changeover will significantly improve the supply of cash exchange services in rural areas. Trainings for post office employees covering inter alia cash handling and security features have started in September. Security measures, storage and counting facilities have been already enhanced. Furthermore, the Lithuanian Post is involved in the distribution of dedicated communication material on the euro changeover to households.

Retailers have an important role in the changeover since customers tend to use them as de facto exchange offices (in particular if there are no bank branches nearby). Further to the increased need for cash (see Section 2.2. above), crucial aspects for retailers include compliance with the dual display of prices requirements and participation in the Memorandum on Good Business Practice (see Section 2.3. above), training of employees, adaption of cash storage facilities and security measures and IT-related issues.

The big supermarket chains in Lithuania are also active in Estonia and/or Latvia and are, therefore, already experienced with the challenges of a euro changeover. Their preparations seem well advanced. To reduce queues, it is intended to establish separate self checkout areas where customers may make card payments only. Litas cash will be put into separate boxes at the cash registers to ensure that it will not be used as change. Info points on the changeover have already been established to answer customers' questions.

Notwithstanding the good level of information available on the euro changeover practicalities also in the rural areas, smaller retailers seem to be less prepared for the changeover and to fear the challenges and cost involved, in particular during the dual circulation period. Given the particular importance of small retailers in rural areas, it is recommended that these fears are addressed on a local level and awareness raising measures are strengthened further.

Preparations of enterprises in particular in rural regions should be regularly monitored and the awareness of the euro changeover practicalities be stepped up.

3. COMMUNICATION ACTIVITIES AND PUBLIC OPINION

3.1. Communication activities

After the Council decision on 23 July 2014, the Lithuanian authorities have launched the intensive phase of the implementation of the euro changeover related communication activities.

The communication campaign, under the guidance of the Ministry of Finance, involves a mix of communication tools and instruments (direct household mailing, seminars and trainings, social media, TV and print campaign) and is targeting various groups (e.g. businesses, journalists/media, youth, vulnerable groups). Complementary communication activities are undertaken by the Bank of Lithuania, the Ministry of Economy, the State Consumer Right Protection Authority, the Ministry of Education and Science and other public and private institutions.

To address the concern that the introduction of the euro would lead to price increases, the Ministry of Economy, in close cooperation with the Ministry of Finance, has started the implementation of the “Fair price conversion” campaign. The aim of the campaign is to inform about the rules for conversion and dual display of prices, invite businesses to subscribe to the Memorandum on Good Business Practice and encourage consumers to shop at points of sale which have signed the Memorandum. Following the increase in the expression of concerns over abusive price setting (see results of the Eurobarometer 402 survey below), the Commission encourages the Lithuanian authorities to step up its communication campaign in order to properly address the fears of the citizens.

The mass media campaign has intensified since July 2014. Representatives of the Ministry of Finance, the Ministry of Economy, the Bank of Lithuania and the State Consumer Rights Protection Authority and other public institutions are regularly invited by national TV and Radio broadcasters and are frequently publishing articles in the Lithuanian newspapers. Moreover, television and radio companies as well as websites are also contributing to the campaign with high-quality, channel-formatted content informing the public in Lithuania about practical aspects of the euro changeover and the fair pricing campaign. In the media selection process, special attention is given to reaching vulnerable groups in remote areas, disabled people and national minorities. The first phase of the campaign seems already to have had a positive impact on the extent to which citizens feel informed about the euro as the awareness on the euro introduction has strongly improved as well as on certain practical concerns which have somewhat decreased (see results of the Eurobarometer 402 survey below).

Regular seminars, workshops and events in the regions are taking place for businesses, professional cash-handlers and vulnerable groups in order to address the issues of the euro changeover. In order to ensure maximum reach to the Lithuanian population, a Eurobus is visiting the 60 municipalities until November 2014.

Several publications were produced by the Lithuanian authorities covering various topics related to the euro and its introduction in Lithuania. The publications were also made available in the languages of the national minorities and adapted to visually-impaired and deaf people. Educational programmes for the youth were developed by the Bank of Lithuania and the Ministry of Finance.

A direct mailing to all households in Lithuania has been scheduled for October 2014. It is available in Lithuanian, Polish and Russian and will address practical issues of the euro changeover. The direct mailing project is essential in order to reach to the majority of the population. The latest Eurobarometer figures (see results below) indicate that 30% of the respondents see their letter box among the most useful ways to receive information about the euro and the changeover.

In the framework of the Partnership Agreement, signed between the Lithuanian Ministry of Finance and the European Commission, several joint communication activities were implemented: Euro festivities and a seminar for Lithuanian journalists in July 2014, a Euro Changeover Conference in September 2014 as well as various activities for journalists and schools in Lithuania. The Commission also provided the Lithuanian authorities with relevant publications for the general public.

To enhance synergies and maximise the impact of communication campaign activities, the European Central Bank and the Bank of Lithuania will launch a common information campaign in November which uses a wide range of tools (TV, print, online and outdoor advertising, as well as other information material) and focuses on the visual appearance of euro banknotes and coins, the security features and key facts and dates of the changeover. As knowledge about banknotes remained unchanged between April and September (see Eurobarometer 402 results below), this campaign will be essential in order to ensure the public is properly informed on euro banknotes.

3.2. Public opinion

Since 2004, the European Commission has commissioned 'Eurobarometer' (EB) surveys in the countries which joined the EU in 2004, 2007 and 2013 and have yet to adopt the euro (the newer Member States - 'NMS') in order to gauge citizens' attitudes towards and knowledge about the introduction of the euro. The results for Lithuania of the spring 2014 'NMS-7' survey (Flash EB 400) were presented in the Commission's Fourteenth Report⁷ on the practical preparations for the future enlargement of the euro area.

In order to better follow the evolution in citizens' attitudes towards and knowledge about the introduction of the euro in the context of the euro changeover, the European Commission decided to commission a second dedicated survey in Lithuania. The fieldwork for this survey was carried out from 4 to 6 September 2014 (five months after the previous fieldwork in April 2014).

3.2.1. Support for euro adoption/perceived consequences

The latest survey shows that the support for euro adoption is stable. 48% (+1 pp) are in favour of the introduction of the euro. A majority of respondents (51%) think that Lithuania is ready to adopt the euro.

When asked about consequences of the introduction of the euro, the number of Lithuanians expecting positive consequences has increased at all levels. While 50% (+5pp) now see positive consequences for current euro area Member States, 44% (+3pp) expect positive consequences for their own country and 37% (+2pp) on a personal level.

⁷ See footnote 3.

As regards possible consequences of the euro introduction on prices, the survey clearly highlights that a negative impact is still a major concern for the Lithuanians with 84% (+ 9pp) expecting prices to go up and only 11% (-7pp) expecting the euro to keep prices stable. Furthermore, 76% (+6pp) express concerns about abusive price setting during the changeover.

When it comes to the question whether the introduction of the euro would mean a loss of control over economic policy, a relative majority of 48% (-2pp) disagrees with this statement. 58% (first time asked) see the euro adoption as an opportunity for Lithuania to further strengthen its place in the EU.

The most important changes in the expectations Lithuanians have of the adoption of the euro for Lithuania out of several options provided (multiple answers possible) are that it will make travelling easier in other euro area countries (86%, +5pp) and will allow to easily compare prices with other euro area countries (50%, +5pp).

Nine in ten respondents (90%, first time asked) say that they will personally manage to adapt to the new currency.

3.2.2. Information about the euro

The level of public awareness on euro changeover related issues continues to increase, with 70% (+20pp) of Lithuanians considering themselves to be well-informed. Furthermore, 96% of respondents know that the day of euro adoption is 1 January 2015 (+14pp).

When asked about whether they would trust information on the euro changeover provided by certain institutions or groups, Lithuanian citizens polled in this Eurobarometer survey put most trust in information provided by the Bank of Lithuania (73% (+8pp)). Journalists remain having the lowest public confidence (27% (-1pp)).

When it comes to the channels which should be used to best receive information, 54% (-8pp) of Lithuanian citizens see television as the most useful, followed by the internet (52%, -1pp), newspapers (37%, -2pp) and banks (39%, +2pp). Least useful channels (20%) are the workplace (20%, -3pp), schools and other places of education and training (20%, -2pp) as well as public spaces (20%, -3pp).

The conversion rules remain on top of the essential information that should be covered by an information campaign according to 61% (-2pp) of polled Lithuanians. Practical implications for the salary and bank account (60% (+2pp)) and the general modalities of the euro introduction (58% (+1pp)) are also deemed essential, followed by information on the value of one euro (47% (-2pp)).

Dual display of prices was confirmed, albeit to a lesser degree, as the most important action of a euro changeover information campaign: dual display in shops 77% (-7pp), on bills 71% (-3pp), TV advertisements 68% (-4pp), and pay slip 62% (-1pp).

The Commission will conduct Eurobarometer opinion polls in Lithuania before, during and after the dual circulation period, starting in late December 2014.

The new phase of the information campaign in Lithuania should address the remaining concerns related to euro introduction and increase consumers' confidence. To tackle persistent concerns of price increases in the changeover period, the citizens need to be continuously informed about the results of the price monitoring and other control activities.

