

Estonia's National Changeover Plan

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INTRODUCTION

The changeover from kroon to euro will occur on January 1st, 2011 (the €-Day) at the exchange rate of 1 EUR = 15.6466 EEK. Estonia joined the European Union (EU) on May 1st, 2004. The decision to join the EU, approved at the referendum held in the autumn of 2003, also represented support for the accession of Estonia to the euro area. The Government of the Republic and Eesti Pank (Bank of Estonia) set the goal to adopt the euro at the first opportunity, as soon as Estonia was able to meet all the necessary conditions. On July 13th, 2010, the decision process of admitting Estonia to the euro area was finally completed. The Council of Economics and Finance Ministers of the European Union - ECOFIN - accepted the decision of adoption of the euro in Estonia from January 1st, 2011, the amendment of the Regulation of the Council 974/99/EC and the Regulation of the Council about the conversion rate of the euro.

Practical preparations for adopting the euro were commenced already before joining the European Union. At the Cabinet meeting on January 15th, 2004, the Government of the Republic set the goal of being technically ready for adoption of the euro by mid-2006, which would have enabled transition to the euro from January 1st, 2007. On June 28th, 2004, Estonia joined the Exchange Rate Mechanism II (ERM II), which is a preparatory system for accession to the euro area in order to ensure a stable exchange rate.

After Estonia's accession to ERM II, the European Commission and the European Central Bank (ECB) assessed Estonia's level of readiness to join the euro area on four occasions – in 2004, 2006, 2008 and 2010. The latest convergence reports, which were published in May 2010, assessed the economic and legal integration 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 met all necessary criteria for accession to the euro area, i.e. the criteria of exchange rate, government finance, long-term interest rates, price stability and legal convergence. On July 13th, 2010, the decision process of admitting Estonia to the euro area was completed. ECOFIN adopted the Decision of the Council on adoption of the euro in Estonia from January 1st, 2011, the amendment to the Regulation of the Council 974/99/EC and the Regulation of the Council on the conversion rate of the euro.

In order to prepare the transition to the euro, the Government formed an expert commission with its order No. 53 from January 31st, 2005 „Establishing of an Expert Commission for Coordination of Actions Necessary for Smooth Transition to the Euro”. The head of the Commission is the Secretary General of the Ministry of Finance.

At its first meeting (February 15th, 2005), the Expert Commission decided to establish six task forces for mapping of potential problems in areas related to the introduction of the euro and developing of solutions – the joint task force of Eesti Pank and credit institutions, the business environment task force, the task force for technical preparation of governmental authorities, the consumer protection task force, the legislative drafting task force and the communication task force. In 2009, it was further decided to form a seventh task force which undertakes to monitor and keep records on fulfilment of the euro convergence criteria. The task forces include participants from both the public and

the private sector¹.

The National Changeover Plan has been devised on the basis of information obtained from the task forces. The task forces have held meetings since March 2005, but especially often within this year, and mapped issues needing scrutiny in relation to the changeover to the euro. The objective of the plan is to provide directions for governmental authorities and information for the broader public in order to prepare for the changeover to the euro. The plan is supplemented in line with emergence of problematic aspects concerning the changeover to the euro and development of solutions either within the task forces or elsewhere. The National Changeover Plan is a public document which is available in Estonian, Russian and English on the web pages of the Ministry of Finance and Eesti Pank, as well as on the Euroweb at the address euro.eesti.ee.

¹ More detailed information about the membership of the task forces is provided in Appendix 1.

THE PATH TO THE 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 proclaimed the establishment of the Economic and Monetary Union (EMU) as the official goal of the European integration.

A plan was drafted in 1970 under the authority of the Prime Minister of Luxembourg Pierre Werner, which envisaged the achievement of the Economic and Monetary Union 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. This was followed by attempts to stabilize exchange rates within a framework of limited fluctuation margins.

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

In 1992, the Member States of the EU concluded the Maastricht Treaty, forming a basis for establishment of the common economic and monetary union of Europe. The planned outcome was the introduction of a single currency in Europe. The single currency was to provide traders in a single market a uniform price scale and means of payment, which would significantly simplify and stimulate trade between the Member States. Preparations were performed in three stages, the last of which began in 1999 with the creation of the euro and the commencement 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 forms the European System of Central Banks (ESCB) together with the national central banks. The ECB, together with the ESCB, commenced the implementation of the common monetary policy from January 1st, 1999. On the same date, the exchange rates of national currencies were irrevocably pegged to each other and the single currency, the euro, was introduced. Euro cash was put into circulation on January 1st, 2002. To date, 16 Member States have joined the euro area. The most recent accession was that of Slovakia at the beginning of 2009.

THE MAASTRICHT CRITERIA

In order to gain full membership of the European Economic and Monetary Union and join the euro area, EU Member States with derogation shall first participate in the exchange rate mechanism ERM II and bring their economic indicators into conformity with the Maastricht nominal convergence criteria assessing the sustainability of the public finance, price and interest rate convergence and exchange rate stability:

- *Public finance.* No excessive budget procedure has been initiated against the state. For this decision, the reference values comprise the government budget deficit not exceeding 3% of the GDP (a temporary and minor exceeding of the 3% limit is allowed in exceptional cases) and the government debt either below 60% of the GDP or approaching the required level at a satisfactory pace.
- *Exchange rate.* The country shall participate in the currency exchange rate mechanism ERM II for at least two years and keep the exchange rate of its currency within the normal fluctuation margins prescribed by the ERM II without serious tensions. No Member State may devalue the exchange rate specified within the ERM II at its own initiative.
- *Price stability.* The inflation rate of the state must not exceed the average inflation rate of the three best performing Member States by more than 1.5 percentage points.
- *Interest rates.* The long-term interest rate of the state must not exceed the average long-term interest rate of the three Member States with the best results in price stability by more than 2 percentage points.

The objective of the convergence criteria is to ensure that economic development within 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 level of readiness 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, as well as the development of labour unit costs and other price indices. All acceding states shall also bring their relevant national legislation into compliance with the EU legislation.

Despite the impacts of the global financial and economic crisis, Estonia's position with respect to meeting the criteria has improved:

- Estonia's general government budget has remained in considerable surplus throughout 2001–2007; accordingly, our public debt is the lowest in the EU. The economic recession has put extensive pressure on the state finance but the Government has managed to keep the government budget deficit below 3% of the GDP, applying additional budgetary policy measures. According to data published by Statistics Estonia on March 26th, the government budget deficit of 2009 was 1.7% of the GDP.
- Estonia has been a member of the ERM II for over 5 years and the exchange rate of the kroon has remained stable during that time. Thus, Estonia met the exchange rate stability criterion and with the Decision of the Council of the European Union, the conversion rate of the euro was fixed at 15.6466 kroons per euro.
- Against the background of rapid economic growth, continuing price level

convergence and factors arising from the external environment such as the rapid growth of raw material prices, meeting the price stability criterion was the most complicated task for Estonia. In November 2009, Estonia fulfilled the Maastricht inflation criterion which had been problematic until then. According to the prognosis by the Ministry of Finance, there will be no problems with the sustainability of the inflation criterion.

- Estonia lacks the proper instrument for assessing the convergence of interest rates (i.e. an at least 10-year government bond issued in Estonian kroons). However, the European Commission has in its convergence report drawn the conclusion that Estonia does not have any problem with meeting the interest rate criterion.

THE STABILITY AND GROWTH PACT

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

Achievement of fiscal discipline. According to the Pact, Member States must set themselves the goal of reaching the medium-term objective (MTO) of the budgetary position. These goals may deviate from the requirement of government budget position close to balance or in surplus, but they shall guarantee the adherence to the annual budget deficit limit of less than 3% of GDP, as prescribed by the Maastricht Treaty, even during economically more difficult years. The MTOs of the Member States having adopted the euro or participating in the ERM II shall remain within the range from -1% of the GDP to balance or surplus. MTOs are set in cyclically adjusted terms, net of one-off and temporary measures.

If a Member State fails to meet 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 issue a recommendation to the state to correct the excessive deficit. Normally, the period granted for a Member State for correction is from the discovery of the excessive deficit until the end of the following year. The SGP also provides the Council with the option of imposing penalties on states within the monetary union that have an excessive budget deficit and fail to take effective action for its correction. The penalty may initially be imposed as an interest-free deposit payable to the EU (up to a limit of 0.5% of the GDP of the Member State), but should the excessive deficit not be corrected within two years, the penalty may be altered to a fine. Notifications of debt and deficit levels submitted by the Member State twice a year (by April 1st and November 1st) form the basis for the procedure of correction of excessive deficit. The submitted figures shall also be confirmed by Eurostat.

Coordination of economic policies. Member States with membership in the monetary union shall annually submit a Stability Programme, and EU Member States striving for the EMU membership shall 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 IMPACT OF INTRODUCTION OF THE EURO ON ESTONIA

No significant changes in Estonia's economic policy will follow the introduction of the euro. Given that under the currency board regime, the Estonian kroon has been pegged to the Deutsche Mark since 1992 and to the euro since 1999, Estonia has essentially belonged in a monetary union with the EU core states for almost 18 years now. Under the currency board regime, as within a monetary union, a state does not exercise an independent monetary policy. Through its rigidly fixed exchange rate, the economy of Estonia already belongs in the immediate sphere of influence of the ECB monetary policy. Therefore, the introduction of the euro will cause no significant changes for Estonia in terms of monetary policy.

The difference of a currency board regime linked to the euro and a monetary union is the existence of an exchange rate. The exchange rate risk will disappear upon Estonia's accession to the euro area, which assures economic agents that the theoretical threat of devaluation will be non-existent also in the future. Accession to the euro area will also entail the obligation to follow a balanced economic policy in the future (see "The Stability and Growth Pact"). Together with the removal of the theoretical devaluation risk, accession to a stable economic area and continued balanced economic policy will increase long-term monetary stability in Estonia, which in its turn will be reflected in stable and low interest rates. This reduces the risk of a steep increase of interest rate like the one that could be observed during the economic recession in 2009. A stable financial environment in its turn promotes the recovery of economic growth and continued economic development.

At the introduction of the euro, Estonia's role in the economic policy of the European Union will also increase. Developments up to date have shown that countries outside the euro area have considerably less influence on the economic policy of the EU than those within the euro area. After full membership of the EMU has been achieved and the euro introduced, representatives of the Ministry of Finance will start participating in the work of the Euro group which only includes representatives of euro countries. Euro group's role in decision-making related to the EU economic policy will continue to increase in the future. Moreover, representatives of Eesti Pank will be involved in the formulation of the monetary policy within 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 lower transaction costs, as the need for currency exchange will decrease. The experience of other countries has shown that such savings may reach up to 0.2% of the GDP a year. The euro will also enable a more effective comparison of prices.

Introduction of the euro will not result in any significant acceleration of inflation. Experiences up to date have indicated that the impact of the introduction of the euro has been of short duration and caused a one-time price increase, the average of which is just 0.1 –0.3 percentage points.

THE MAIN PRINCIPLES OF CHANGEOVER TO THE EURO

The changeover to the euro shall be smooth. This requires the most extensive preparatory work possible, involving representatives from different institutions and target groups, and sufficient provision of information to the general public. The activities necessary for the introduction of the euro are planned so as to make the changeover as convenient as possible for the public. Regarding the interests of entrepreneurs, the simplest and most cost-effective scenario shall be applied while ensuring all the necessary preparations for a smooth changeover. Various measures are applied in order to minimize the pressure for price increase.

The main principles of changeover to the euro are the following:

- Introduction of the euro as account currency, as well as in accounting and contractual relations, is performed as a “big bang”, i.e. without any *transitional period*².
- In order to ensure a smooth changeover to the euro, a two-week dual circulation³ period is applied starting from the €-Day (January 1st, 2011), during which euro and kroon cash will be treated as equal legal tenders. Both euro and kroons are accepted in shops, change is normally given in euro. After the dual circulation period, the euro will become the sole legal tender in Estonia.
- In order to facilitate the introduction of euro cash, credit institutions are obliged to change kroons into euro during six months following the €-Day (until June 30th, 2011) at the central exchange rate and without charging service fee at all bank offices providing cash services. In order to ensure smooth changeover to the euro, banks will also provide exchange at the central exchange rate and without service fee within one month prior to the €-Day (i.e. during December), in cooperation with Eesti Pank. From July 1st, 2011 (i.e. 6 months after the €-Day) to the end of the year 2011, credit institutions will exchange kroons to euro within a limited network of branch offices, pursuant to an agreement with Eesti Pank. After that period, Eesti Pank will exchange kroons to euro for an unlimited period of time, at the central exchange rate and without charging service fee.
- Six months before and after the €-Day (i.e. July 1st, 2010 - June 30th, 2011), retailers are required to display either hand-written or printed prices at points of sale in both kroons and euro. The price shall also be displayed in dual currency when goods or services are provided via e-commerce; alternatively, the consumer shall be provided with the opportunity to easily convert the price from kroon to euro and vice versa (e.g. a price calculator on the trader's website). The exchange rate established by the Council of the European Union shall be used for conversion, i.e. one euro equals to 15.6466 kroons.

2 Transitional period – the period from the start of full membership in the Economic and Monetary Union to the moment when the national currency is no longer in use in accounting, contractual relations or as account currency. The period may coincide with the dual circulation period but may also be omitted (if “big bang” is applied).

3 Dual circulation period – the period when kroon cash and euro cash are in circulation as equal legal tenders.

- In order to set a good example to the private sector, the kroon rates of taxes, state fees, environmental charges and benefits specified in laws and regulations are rounded into euro in a more favourable direction for the public.
- Expenses related to the changeover are normally borne by market participants themselves.

THE LEGAL FRAMEWORK

1. Changeover to the euro in the European Union law

The EU legal framework regarding introduction of the euro comprises three Council Regulations. Council Regulation No. 1103/97/EC provides the principle of continuity of legal instruments, rules for conversion from national currencies to euro and rounding rules. Regulation No 974/98/EC establishes the euro as the sole legal tender in the countries having joined the euro area and regulates dual circulation and removal of the national currency from circulation. This Regulation also covers aspects of the transitional period (which is not applied in Estonia) and issues related to euro coins and notes. Council Regulation No. 2866/98/EC provides the fixed conversion rates between national currencies and the euro.

Dual circulation period

From the date of entry into force of the Council Regulation establishing the date of Estonia's accession to the euro area and the exchange rate between the euro and the kroon (amendments to the Regulations 974/98/EC and 2866/98/EC), the euro will function as legal tender in the Republic of Estonia . According to the Government's programme, this date is set for January 1st, 2011. Considering that a dual circulation period with an optimal duration of two weeks is necessary to ensure a smooth changeover, 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, both euro cash and kroon cash shall be legal tender in the Republic of Estonia. Cash payments may thus be executed in both euro and kroons within two weeks following the entry of the euro into circulation. After the expiry of this term, the euro will be the sole legal tender in the Republic of Estonia.

Rounding rules

Conversion to the euro is performed by dividing a value indicated in the Estonian kroon at a ratio determined by the European Council Regulation No. 2866/98/EC. The result obtained will be rounded to the nearest one cent based on three decimal places. If the third decimal is 5 or above, the converted value will be rounded up.

Example 1. If you wish to convert, for example, 264.50 kroons into euro, the following division shall be performed: $264.50 \text{ EEK} : 15.6466 = 16.90463104 \text{ euro}$.

The result must then be rounded to the nearest cent, taking only the third decimal 16.90463104 into account. If the third decimal is 4 or below, the converted value will be rounded down; in this example, rounding to the nearest cent would therefore yield 16.90 euro.

Conversion of euro into kroons is performed in a similar manner according to the aforementioned rule, but using multiplication instead of division. Inverse ratio derived

from the conversion rate shall not be applied and the conversion rate shall not be rounded or shortened.

Example 2. If you wish to convert 27 euro into kroons, the following multiplication shall be performed:

27 euro x 15.6466 = 422.4582 kroons = 422.46 kroons. In settlements, the result may be rounded to 422.50 kroons.

Continuity of legal instruments

Pursuant to Council Regulation No. 1103/97/EC, the introduction of the euro shall not affect the continuity of contracts or other legal documents (incl. legal provisions, administrative legislation etc.). The introduction of the euro shall not affect terms and conditions of any legal document or exempt anyone from the performance of obligations, nor shall it entitle a party to unilaterally amend or terminate a valid document.

2. The Euro in the Estonian legislation

Besides the European legislation, the Estonian national legal provisions will also be adjusted in order to provide the conditions necessary for the changeover to the euro. Draft legislation regarding the changeover to the euro has been submitted for opinion to the European Central Bank. The purpose of the aforementioned consultation procedure is to ensure the conformity of the national legislation with the legislation of the European System of Central Banks and the policy of the ECB (a more detailed regulation is provided in the Council Decision No. 98/415/EC).

When Estonia achieves full membership in the Economic and Monetary Union, it will result in a legal situation where Eesti Pank is entitled to issue euro banknotes at the permission of the European Central Bank and euro coins to the extent prescribed by the ECB; moreover, the euro is the sole legal tender on the territory of the Republic of Estonia after the dual circulation period, and Eesti Pank shall remove the kroon from circulation.

Amendments in legislation

A comprehensive act has been devised for the purpose of introduction of the euro in Estonia, which enables an overview of the legislation to be amended. The Act on the Introduction of the Euro (hereinafter *the AI€*) provides for the procedure of exchanging kroons into euro and removing kroons from circulation, the regulation of dual circulation and the necessary amendments to existing laws (ca 200 acts). With the AI€, the Currency Act and the Act on the Security of the Estonian Kroon of the Republic of Estonia will be repealed. The AI€ will enter into force on the date specified by the Decision of the Council of the European Union on abrogation of the derogation of the Republic of Estonia, on the basis laid down in subsection 2 of Article 140 of the Treaty of the Functioning of the European Union.

The AI€ does not contain amendments to acts that require more comprehensive amendments as a result of the changeover to the euro. Proceedings for the new wording

of the State Fee Act and amendments to the Commercial Code and related acts were conducted simultaneously with those for the AIE. Those Acts were passed on April 22nd, 2010 (RTI (*Riigi Teataja I*, State Gazette I), 25.05.2010, 22, 108, RTI, 25.05.2010, 21, 107, RTI 2010, 20, 103). The relevant amendments to the Eesti Pank Act were passed by the Riigikogu on June 7th, 2006. With the Amendment Act to the Eesti Pank Act, the Eesti Pank Act was brought into conformity with the requirements imposed by the Treaty of the Functioning of the European Union and the Statutes of the European System of Central Banks and the ECB to the central bank of a state with full membership in the Economic and Monetary Union. Discrepancies between the Eesti Pank Act and the Community law, specified in the Convergence Reports of 2004 by the European Central Bank and the European Commission, were removed by the Amendment Act to the Eesti Pank Act. With the AIE, the amendments of the Eesti Pank Act was also updated and formal amendments made.

- The consolidated draft of Regulations of the Government was confirmed by the Government of the Republic on August 19th, 2010. The Regulation amends 127 regulations of the Government of the Republic which refer to the kroon/sent or the currency rate of Eesti Pank (references to the currency rate of Eesti Pank are replaced with references to the currency rate of the European Central Bank).
- Regulations of Ministers to be amended due to the introduction of the euro were prepared by the Ministries by September 30th, 2010.

THE CENTRAL BANK AND CREDIT INSTITUTIONS

1. Euro cash

Euro bank notes are denominated in 5, 10, 20, 50, 100, 200 and 500 euro. Identical banknotes are in circulation in all Member States of the euro area.

Eesti Pank procures euro banknotes for replacing the cash in circulation via the European System of Central Banks.

Euro coins are denominated in 1, 2, 5, 10, 20, 50 cents and 1 and 2 euro. The reverse of the coins showing the denomination is common for all Member States whereas the obverse is national and different in each country. Despite different obverses, all coins are legal tender throughout the euro area.

Eesti Pank selected the design of the national side of the Estonian euro coins by way of a public competition. At a telephone voting, the entry Hara 2 by Lembit Lõhmus received the highest number of votes. The winning design features the outline of Estonia and the word "Eesti". The Estonian euro coins (total circulation 194,000,000 pcs) are minted at the Mint of Finland.

2. Exchange of kroon cash into euro

Euro cash will be entered into circulation via 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 prescribed. During this period, payments in cash can be made in both kroons and euro at all sales and service points. Change will normally⁴ be given in euro.

Although payments in kroon cash can be made in shops during the dual circulation period, the retail distribution network should not be used for realizing large amounts of kroon coins. According to the Act on the Introduction of the Euro, no enterprise except credit institutions and Eesti Pank is obliged to accept coins in amounts exceeding 20 kroons during the dual circulation period. A separate campaign for collection of coins is organized in October and November of the year 2010, conducted by the Banking Association in cooperation with commercial banks.

Banks. Although the euro is not a legal tender in Estonia prior to the €-Day, credit institutions will offer the opportunity to exchange kroons to euro at the central exchange rate and without service fee already at least one month prior to the €-Day (from

⁴ Since the objective of the dual circulation period is to smoothly remove kroons from and put euro into circulation, shops shall give change in euro whenever possible. Considering the possibility that euro cash may not have been delivered to shops in remote rural areas by the €-Day, the option of also giving change in kroons will remain for the dual circulation period.

December 1st, 2010). This is necessary in order to reduce the workload of both retail and service enterprises and credit institutions after the €-Day. The December exchange will be performed at all bank branch offices providing cash services, without service fee and at the central exchange rate of 15.6466 kroons per euro. The December cash exchange is solely intended for natural persons and involves bank notes. Each bank will continue with the established format of currency exchange, preserving the prior reservation system.

From December 1st, 2010, the public may purchase starter kits of euro coins including all denominations of Estonian euro coins to be entered into circulation, in order to familiarize themselves with the new currency. A starter kit comprises 42 coins in total, its value is 12.79 euro and price 200 kroons (the starter kit also contains a security medallion). Starter kits will be launched for sale from December 1st, 2010 at bank branch offices, with the purchase limit of five starter kits per purchase. 600,000 starter kits will be prepared in order to present the Estonian euro coins to the public prior to the €-Day, estimating one kit per household. The preparation of the starter kits is co-financed by the European Commission.

The Estonian euro coins included in the starter kits will assume validity as legal tender from January 1st, 2011, when the euro becomes the official legal tender in Estonia.

From 01.01.2011, kroons can be exchanged to euro at the central exchange rate and without service fee at all bank branch offices providing cash services⁵ for 6 months following the €-Day; thereafter within a limited branch network from 6 months after the €-Day⁶ to 12 months after the €-Day, i.e. from July to December 2011⁷. Eesti Pank will exchange kroons to euro for an unlimited period and in unlimited amounts. The requirements for combating money laundering will be followed during the entire cash exchange period.

Automated teller machines. ATMs are one of the most important channels for putting euro banknotes into circulation. ATMs are reprogrammed and filled with euro cash in the course of a joint project which aims to adapt all ATMs in Estonia to dispense euro banknotes at the latest within 48 hours as from the €-Day. During the dual circulation period, banks will distribute €5, €10, €20 and €50 denominations at ATMs. The assortment of denominations in the ATMs of banks will depend on the decision of the individual bank.

By now, 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

⁵ The principle of exchanging kroons for euro without service fee means that during the specified period, credit institutions will not charge fees for direct cash exchange transactions. Credit institutions are entitled to charge service fees according to their price list for accompanying transactions (e.g. depositing cash onto the account of another person, counting large amounts of coins on the spot, etc.).

⁶ In the course of the exchange preceding the €-Day, euro banknotes are sold at the central exchange rate and without service fee for Estonian kroon cash, i.e. loose euro coins cannot be purchased before the €-Day (except in 'starter kits' sold to the public which contain euro coins for ca 200 kroons. The number of kits sold to one individual is limited).

⁷ For up to 12 months from the €-Day, exchange of cash shall be ensured in at least one branch office of one credit institution in each county; in Tallinn, in at least one major branch office of each credit institution. Information thereof will be made publicly available via public information channels and also by credit institutions.

needed for filling ATMs, has been completed and will be elaborated up to the €-Day.

- Retailers should make the necessary preparations for the dual circulation period before the €-Day.

Cash exchange in rural areas. In order to improve the availability of euro cash in rural areas, AS Eesti Post will participate in the cash exchange. The supporting service provided by AS Eesti Post via Postipank, a joint project of SEB and Eesti Post, comprises the following:

- Cash exchange / withdrawal without service fee for all customers of Eesti Post, incl. those who do not have an account with SEB (if necessary, Eesti Post may establish a maximum limit of cash exchange at 1,000 euro per customer and day).
- The cash exchange period is January 1st to January 15th, 2011 (15 days in total). Cash is also exchanged on January 1st, 2nd and 9th.
- Ca 180 post offices will participate in the cash exchange.

3. Coin collection campaign

A separate campaign for collection of coins has been prepared, to be conducted by credit institutions in cooperation with the Cash-in-transit Division of G4S in October and November of 2010. The purpose of the campaign is to provide the public with the opportunity to hand over existing kroon coins at banks during a certain period preceding the €-Day, thereby reducing the workload of cash exchange after the €-Day. Banks will not apply their regular service fee on counting of coins and transferring the respective amounts to accounts; this service is free of charge for everyone. Additional information on the details of the campaign will be provided for the public.

4. Procurement, frontloading and sub-frontloading of cash and withdrawal of kroons

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

Frontloading of euro banknotes and coins to credit institutions may take place 3-4 months before the €-Day. The objective is to alleviate the transport workload and ensure a rapid distribution of euro cash throughout Estonia. According to the plan, commercial banks may sub-frontload cash to their major clients starting from 3 months before the €-Day. The precondition of sub-frontloading and frontloading is that the euro banknotes and coins shall not be distributed to the general public before the €-Day, and premature entry of euro cash into circulation shall be prevented. Credit institutions have prepared prognoses regarding sub-frontloading and frontloading; the work in order to ensure smooth distribution of cash to customers will continue until January 1st, 2011, as well as after the €-Day.

An innovation in comparison with the most recent expansions of the euro zone is that credit institutions are entitled to apply simplified frontloading of euro coins or euro banknotes for the amount of up to 10,000 EUR to small enterprises, at the earliest 5 days before the €-Day. The procedure of simplified sub-frontloading is applied to enterprises with up to 10 employees and an annual turnover of up to 2 million euro. Pursuant to the principle of freedom of contract, credit institutions are entitled to decide whether and to whom the service of simplified frontloading will be provided.

In cooperation between the Cash-in-transit Division of G4S and credit institutions, standard packaging for euro coins intended for small retailers are prepared, which can be obtained via frontloading and simplified sub-frontloading by intermediation of credit institutions.

The currency changeover comprises two equally essential logistical tasks – distribution of euro cash and withdrawal of kroons from circulation. The latter will start with the coin collection campaign in October which aims to reduce the workload during the exchange period. In addition, credit institutions plan campaigns encouraging people to deposit as much of the cash kept at home (coins and banknotes) as possible with banks.

During the exchange period, kroons will be withdrawn from circulation via the retail network and bank offices. During the dual circulation period, the main workload of cash transportation comprises kroon transports; detailed plans will be devised by the participants in order to ensure its smooth execution. The security of cash transportation will be ensured on the basis of an integrated plan devised by a task force formed under the Ministry of Internal Affairs.

5. Euro cash training

Eesti Pank conducts a series of training seminars for cash handlers within the year 2010. The purpose is to distribute information regarding the security features of the euro, thereby minimizing the spread of counterfeited euro cash.

The training is performed in three stages.

The first training stage was conducted in the beginning of June and it was intended for representatives of credit institutions and large businesses. In the course of three seminars, top-level experts from the Bank of Finland, the Central Criminal Police of Finland and the Finnish Nordea Bank provided information for re-trainers. The purpose of the lecture was to train representatives of the involved enterprises as re-trainers who would distribute the necessary information within their respective organizations.

The second training stage is conducted from September to December in all counties throughout Estonia. Over 20 seminars in total are planned. In the course of a two-hour lecture, experts of Eesti Pank present an overview of the design and security features of the euro cash, provide instructions for distinguishing counterfeits from genuine cash and hand out relevant information materials. The trainings are organized in cooperation between Eesti Pank and regional development centres of Enterprise Estonia. Detailed information of the locations and schedule of the trainings and registration for the seminars is published by Eesti Pank on the Euroweb.

The third, non-auditorium training stage comprises distribution of information to the general public about the security features of the euro via mass media, brochures, advertising, direct mail, exhibitions and other euro-related projects.

6. Introduction of the euro as the account currency

The changeover to the euro account currency 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

With respect to account currency, changeover to the euro will take place on the €-Day as a “big bang”, i.e. without any transitional period. Account currency in kroons will automatically, simultaneously and entirely be converted into euro. For conversion of the account currency into euro, the exchange rate fixed by the Council of the European Union and the agreed rounding rules will be applied.

All transactions executed from the €-Day will be indicated in euro. The value date of the conversion of account currency will be 01.01.2011 and account numbers are not changed. At the conversion of account currency into euro, the client will be provided with the final balance of the kroon account, the exchange rate and the initial balance of the euro account in the account statement. Advance and contractual payments will be converted into euro by each individual bank before the execution of the transaction. Banks shall indicate service fee charged at the provision of a service in kroons prior to the €-Day. Starting from the €-Day, kroon cheques will be cashed in euro. Banks will accept kroon cheques issued prior to the €-Day until the expiry of their validity, but not later than six months after the accession to the euro area.

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

The settlement systems of Eesti Pank will be changed to euro-based on 01.01.2011. From the first banking day of the month of the introduction of the euro, 03.01.2011, the settlement systems of Eesti Pank will only settle payments in euro.

Key preconditions for the transition of the settlement systems of Eesti Pank comprise the already performed preparations – on May 19th, 2008, Eesti Pank implemented the Trans-European Automated Real-time Gross Settlement Express Transfer System TARGET2-Eesti. From 01.01.2011, Eesti Pank will shut down the express payment system EP RTGS. The prior transactions in EP RTGS, incl. interbank payments, guarantee transactions within the retail payment accounting system and money settlement of stock exchange and OTC transactions will be transferred from EP RTGS to the Trans-European express transfer system TARGET2-Eesti.

Prior to the €-Day, the legal framework will be modified and tests of readiness for the euro will be performed with other members of the system.

As the express payment system EP RTGS which will be shut down prior to the €-Day

forms a channel for execution of collateral payments and monetary policy transactions in ESTA, Eesti Pank has developed a business model in order to ensure the membership in ESTA at the termination of EP RTGS and smooth execution of monetary policy transactions of the euro zone.

6.3 Execution of card payments in euro instead of kroons

Card payments will become euro-based from the €-Day. The changeover to the euro is based on the principle that it should be performed with the shortest possible interruption for card holders. Consumers should take into account that certain failures in card payments may occur during the first few hours of the €-Day.

The Card Centre of Banks and credit institutions have agreed upon a common code of practice and users of payment terminals are notified of forthcoming changes.

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

7. Transition to euro-based bank services

All bank services will be changed to euro-based at the latest from the €-Day, January 1st, 2011. In order to prevent accumulation of activities on a short period of time, banks may change services to euro-based already before the €-Day (e.g. contracts, time deposits etc.). The principle that up to the accession of Estonia to the euro area, the client shall absolutely be provided with the opportunity to use all bank services in Estonian kroons without service fees charged from exchange rate differences, shall be observed.

The principle of continuity of contracts shall apply to bank contracts. Therefore, amendment of existing contracts is not necessary. Kroon amounts will be converted into euro at the conversion rate fixed by the Regulation of the Council of the European Union, i.e. 15.6466 kroons equal to 1 euro. Repayment schedules of loan contracts, leasing contracts etc. may be indicated simultaneously in euro and kroons before the €-Day. The detailed course of action will be determined by each individual credit institution.

Starting from the €-Day, Eesti Pank will discontinue the daily forwarding of currency exchange rates to credit institutions. The exchange rates are available on the web page of the ECB, where all credit institutions may download the rates. Currency exchange rates are published on the operating days of TARGET. If TARGET is closed during a working day in Estonia (e. g. on Easter Monday), the most recently published exchange rates shall apply.

The list of currency exchange rates of the ECB does not include ten currencies, the daily exchange rates of which have been published by Eesti Pank. Eesti Pank is not planning to fix exchange rates of currencies in addition to those fixed by the ECB. Those who need additional information on exchange rates can use the exchange rate of the respective national central bank against the euro⁸.

⁸ If necessary, rules established for preparation of financial reports or customs procedures shall

The changeover to the euro will result in changes in the logic of displaying exchange rate information. The standard method applied in Estonia so far has been to display the value of the kroon against one unit of a foreign currency (e.g., in order to purchase 1 USD, 13.3 EEK must be sold). According to the new system, the national currency (EUR) will form the basis of 1 unit and all foreign currencies are shown 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

After the €-Day, credit institutions shall devise reports and/or submit statements to customers in Estonian kroons for the period when the kroon was the sole legal tender in Estonia.

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

In the reports on balance of payments statistics, the threshold for declaring of payments currently applied by Eesti Pank is 50,000 euro, as provided in the EU Regulation No. 924/2009. The current minimum limit of transactions included in the reporting is 10,000 euro. Until the entry into force of the Act on the Introduction of the Euro, the limits indicated in euro are converted into Estonian kroons at the exchange rate of Eesti Pank.

9. Internal financial accounting and financial reporting of Eesti Pank

Full members of the ESCB shall execute financial accounting and reporting on the basis of common principles. Thus, the full membership in the ESCB provides additional requirements to the financial accounting and reporting of Eesti Pank. Eesti Pank is obliged to ensure the compliance of accounting and reporting with the requirements of the ESCB by the time of accession to the euro area.

also be taken into account.

THE BUSINESS SECTOR

1. Accounting

An immediate changeover in accounting will take place on the €-Day - January 1st, 2011 -, i.e. kroon-based accounting will be replaced with euro-based.

a) Preparation of annual reports in euro

Annual accounts shall be prepared with regard to the currency valid in Estonia at the end of the reporting period.⁹ Since the mandatory changeover to euro-based accounting will take place on the €-Day, all reports regarding periods ending on the €-Day or later shall be prepared in euro.

b) Conversions in accounting related to the changeover to the euro

The Estonian Accounting Standards Board has prepared an instruction¹⁰ which contains more detailed necessary technical regulation for execution and recording of conversions into the euro in accounting. Insignificant differences due to conversion and rounding of currency exchange rates may be accounted for and indicated in reports in a simplified manner. In case of increase or reduction of share capital, the resulting difference will be recorded under the item "Retained earnings from previous periods".

c) Changes in limitations of mandatory auditing and consolidation specified in kroons in the Accounting Act

In the new wording of the Authorised Public Accountants Act, the new financial criteria of mandatory auditing and mandatory consolidation have already been provided in euro¹¹.

2. Public limited liability companies

Upon the conversion of share capital and shares into euro, shareholders shall be treated equally and the rights of the shareholders shall be preserved pursuant to existing proportions. Amendments have been made to the Commercial Code, enabling all financial specifications significant for the activities of the company to be indicated in euro:

- i) 25,000 euro will be established as the minimum capital of public limited

⁹ Upon changeover to the euro, it is important to take the financial year cycles of accounting entities into consideration. For the majority of accounting entities, financial year coincides with calendar year. With regard to this, the changeover to euro-based reporting from January 1st, 2011 (i.e. the beginning of a new financial year cycle) is the optimal solution. The accounting entities whose financial year does not coincide with calendar year shall prepare the annual report in the currency valid at the end of the financial year. If the previous financial year ended after January 1st, 2011, the report shall already be prepared in euro.

¹⁰ Instruction No. 18 by the Accounting Standards Board is accessible at:
<https://www.riigiteataja.ee/ert/act.jsp?id=13314110&searchCurrent>

¹¹ Entered into force on 08.03.2010, available at:
<https://www.riigiteataja.ee/ert/act.jsp?id=13275292>

companies. Foundation of new companies with share capital indicated in euro shall be made possible at the latest six months prior to the €-Day.

- ii) 10 euro cents will be established as the minimum nominal value of shares of a public limited company. Moreover, the nominal value of a share shall be a multiple of 10 euro cents.
- iii) Public limited companies will be allowed to apply shares without nominal value. 10 euro cents will be established as the minimum book value of a share without nominal value¹². A public limited company is not allowed to use both types of shares – with and without nominal value – simultaneously.

3. Private limited liability companies

Amendments have been made to the Commercial Code, enabling all financial specifications significant for the activities of the company to be indicated in euro.

- 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.

4. Investment funds

The following amendments (which entered into force on 01.07.2010) have been introduced to the Investment Funds Act:

- i) management companies of a contractual investment fund¹³ (hereinafter *fund*) will be allowed a solution enabling to also issue shares without nominal value in addition to shares with nominal value;
- ii) management companies of funds shall, in case of existing investment funds, indicate the nominal value of a share in euro if they change the conditions of the fund (with the minimum accuracy of 1 euro cent);
- iii) in case of new investment funds (founded after the €-Day), the prescribed minimum nominal value of a share will be 1 euro and the nominal value shall be expressed with the accuracy of at least 1 euro cent ;
- iv) if the fund has several types of shares, joint issue of shares with and without nominal value will not be allowed in order to ensure clarity and reduce complexity;
- v) if the fund has several types of shares, issuing of shares with different nominal values will be allowed;
- vi) management companies of funds will be allowed a solution which would enable changing of the conditions of the fund in a flexible and more cost-effective manner (management companies of funds are not required to coordinate the conditions of the fund, due to changes accompanying the introduction of the euro, with the Financial Supervision Authority in advance);
- vii) in case of both voluntary and mandatory pension funds, the requirement of

12 The establishment of a minimum book value for shares without nominal value prevents the emergence of shares with excessively low book value.

13 For the nominal value of a fund founded as a public limited company, provisions of the Commercial Code regulating public limited companies are applied; therefore, the issue discussed does not concern funds founded as public limited companies.

- mandatory nominal value will be preserved (the 10-kroon nominal value of pension funds will be replaced with 0.64 euro for both new and existing pension funds);
- viii) in order to minimize the possible error affecting the pension fund participant due to rounding at the time of redemption of shares, the number of decimal places at calculation of the net value will be increased (the 4 decimal places will be replaced with 5 decimal places);

5. Amendment of statutes

In order to achieve changeover to the euro in various statutes within an optimal time frame and without causing unnecessary expenses to organizations, the following amendments were introduced to the Commercial Code:

- i) registration of statutes of new legal persons subject to private law, containing data in euro, is allowed upon the entry into force of the Code on 01.07.2010.
- ii) pursuant to the objective of reducing the administrative workload, amendment of statutes is allowed with a simplified procedure¹⁴, if the amendment only comprises transition of the statutes to the euro.
- ii) starting from one year after the €-Day, state registers will not register any amendments to statutes unless the data contained in the statutes are transferred to euro on the same occasion.
- iv) upon the entry into force of the Code on 01.07.2010 and within a year after the €-Day, entrepreneurs are exempted from the obligation to pay state fee at entering of an amendment concerning transition of a company's share capital from Estonian kroons to euro into the Commercial Register (the exemption from state fee would apply to entering of an amendment of statutes into the Commercial Register, incl. change of the amount of capital and entering of a change in a private or public limited company's share capital into the Commercial Register, as well as entering of an amendment of statutes of a public limited company into the Commercial Register in order to apply shares without nominal value).

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

Documents certifying advance payments which have their validity term indicated on them shall be valid throughout the indicated term. Based on the Regulation No. 1103/97/EC of the Council of the European Union, the introduction of the euro will not affect the continuity of contracts and other legal documents (incl. legal provisions, administrative acts etc.). Introduction of the euro will not change the terms and conditions of any legal document, exempt anyone from performance of assumed obligations or entitle a party to unilaterally amend or terminate a valid document. This applies to any agreements and documents certifying the existence of such, e.g. pre-payment cards, gift cards, tickets etc.

At least three months prior to the changeover to the euro, all relevant public-sector entities are requested to submit information about the validity terms and terms and conditions of use upon the changeover to the euro of tickets and other similar documents previously issued by the entity. For tickets of local public transportation

¹⁴ Instead of a regular decision by the shareholders' or general meeting where at least 2/3 of the shareholders or votes represented at the general meeting must be in favour, such amendment can be approved if more than half of the shareholders or votes represented at the general meeting are in favour.

indicated in kroons, the minimum validity term will be established by the entity of the local government.

7. Automated machines accepting cash

Regarding parking meters, casino slot machines and other automated machines accepting cash, no adoption of separate regulations related to the changeover to the euro are planned. Since the euro will be the sole legal tender in Estonia from the end of the dual circulation period, all cash automated machines should be adapted to the euro by the end of the dual circulation period.

TAXATION

In the field of taxation, issues arising in association with the changeover to the euro are 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 to be imposed/declared or already imposed/declared for previous periods .

1. Rounding rules

Amounts indicated in kroons in tax-related legislation were converted into euro in the direction more favourable for the person, if possible.

With the Act on the Introduction of the Euro, the following rates were amended:

- i) the accuracy level of calculation of tax amounts:
 - a) *the requirement of full kroons* – pursuant to Section 97 of the Taxation Act;
 - b) *the accuracy level of 0.50 EEK* – Section 62 of the Alcohol, Tobacco and Fuel Excise Duty Act;
- ii) the minimum tax and interest amount imposed:
 - a) subsection 88 (2); subsection 100 (1); subsection 106 (6) and subsection 119 (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 the amount of tax arrears does not exceed 100 kroons – subsection 14 (5) of the Taxation Act;
- iv) subsection 97 (4) of the Customs Act – limit of compensation for 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) limits provided in tax-related Acts: basic exemption; amounts deductible from income; minimum amount of advance payment of social tax of self-employed persons; limit for the obligation to be registered as a person liable to value added tax.

2. Submission of data concerning the previous period

Immediate changeover will be applied to taxation on the €-Day. Expression of data concerning the preceding period is based on the principle that all operations shall be accounted for in the original currency. Reports regarding the kloon period shall be prepared in kroons and the Tax and Customs Board will convert the amounts to euro (except in cases when the original accounting has already been performed in euro).

a) Submission and amendment of declarations

Information indicating monetary value which is submitted to the Tax and Customs Board either as hard copy or in electronic form shall be expressed in the currency in circulation on the respective period – i.e. information submitted during the period preceding the €-Day shall be indicated in kroons.

All reporting and settlements with the Tax and Customs Board, i.e. submission (including the calculation procedure) 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 calculation procedure 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 imposed for the previous period

Financial liabilities imposed or to be imposed for any previous period (fines, tax notices, notices of tax assessment, reports, declarations, amount of income tax to be reimbursed for the previous period or additional amount of income tax due) shall be calculated in kroons and converted into euro according to the regular conversion rules at the imposition / payment of the amount. Advance tax amounts payable on the business income of self-employed persons are also initially calculated in kroons and thereafter converted into euro.

c) Tally cards of the Tax and Customs Board

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

d) Schedules of payment of tax arrears in instalments

Previously devised schedules of payment in instalments will be converted into euro automatically, at the conversion rate valid at the time of the changeover and pursuant to general conversion rules – no new schedule will be established for this purpose. The readiness of the Tax and Customs Board to issue instalment schedules in euro from the €-Day is of significant importance. The Tax and Customs Board will not issue any instalment schedules ten days prior to the €-Day.

e) Responding to information inquiries

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

3. Revenue stamps

Revenue stamps indicated on products in kroons prior to the introduction of the euro are allowed to be realized in circulation. The amount indicated in kroons on the revenue stamp will be converted into euro according to the general conversion rules.

4. Local taxes

In local tax regulations, the amounts previously expressed in kroons shall be expressed in euro.

THE PUBLIC SECTOR

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

The following principles have been applied in the Act on the Introduction of the Euro:

- i) upon conversion of public financial liabilities (environmental charges, taxes, fees) the amounts shall be rounded in the direction more favourable for the person, if possible;
- ii) financial aid shall be rounded in the direction more favourable for the beneficiaries;
- iii) fines, penalty payments and environmental damage shall be rounded up;
- iv) state receivables and liabilities arisen prior to the €-Day shall be converted into euro according to the general rounding rule.

Pursuant to the draft Act on the Introduction of the Euro, the tax revenue to the state budget will decrease due to the rounding, estimated by ca 1 million kroons over 12 months, of which the negative impact of direct taxes on the state budget is ca 760,000 kroons (changes in basic exemption and other limits) and the negative impact of indirect taxes on the state budget is ca 240,000 kroons (changes in excise rates). According to the draft Amendment Act to the State Fees Act, the revenue will decrease by ca 100,000 kroons. Moreover, the estimated additional expenses due to rounding, based on the budget of 2010, are 800,000 kroons per year.

2. State accounting

There is no need for major reorganization in state accounting. The Estonian Accounting Standards Board has prepared guidelines for the changeover to the euro which will need no complementing due to the specifics of the public sector.

The consolidated annual report of the state for the year preceding the changeover to the euro will be prepared in kroons.

For the Guidelines of the Estonian Accounting Standards Board, see the explanations by the business environment task force.

3. Statistics

The methodological base for the conversion of time-series data has been prepared by Statistics Estonia. Data communicators are notified of changes in data communication. For this purpose, a communication programme intended for partners is devised. Time-series will be converted by the end of the year preceding the €-Day.

4. Information technology

The readiness of IT systems for the introduction of the euro will be ensured by each ministry within their area of governance.

The changeover to the euro in IT systems will be performed on the official day of national changeover to the euro. Kroons and euro will not be used simultaneously. Accounting with respect to previous periods will normally continue in kroons.

The majority of governmental authorities achieved the technical readiness for transition to the euro by July 1st, 2010. The following situation is considered as full technical readiness for the transition of information systems to the euro:

- all necessary adjustments have been made in the information system in order to indicate euro transactions and/or commencement of conversion operations.
- Information systems have been adjusted or developed to euro-compatible in testing environments and provided with instructions and descriptions of how to adjust or develop production environments of information systems to euro-compatible immediately prior to the date of changeover to the euro. Such course of action is permissible if systems are based on one currency and there is no need for execution of transactions or accounting in euro before the changeover and in kroons after the changeover, or if conversion prior to the changeover date may disturb the operation of the information system.

As exceptions, adaptations of systems of the Tax and Customs Board, Social Insurance Board and Ministry of Internal Affairs will be completed later and the technical readiness shall thus be achieved at the latest by November 1st, 2010.

5. Display of dual prices in the public sector

As is the case with entrepreneurs, state agencies are generally recommended to observe the principle of dual display of prices six months before 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 will be displayed in both kroons and euro. This is an advisory requirement, since the respective charge rates are publicly available as amendments of relevant legislation. The rates of state fees and taxes in euro are published in Riigi Teataja (RTI, 25.05.2010, 22, 108 and RTI, 25.05.2010, 21, 107). The final amounts in invoices and notices presented by the public sector shall be indicated in both kroons and euro, according to functionality.

In order to display public charges in dual currency, institutions shall choose the optimal method of indicating the final amounts of charges in invoices and notices in dual currency.

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

The settlement system of the State Treasury is re-programmed and the respective regulations amended (rules of cash service, the procedure for entering state revenue into the budget etc.):

- i) mapping of functions to be changed and preparation of terms of reference for IT (completed in January 2010);
- ii) IT works and testing; preparation and coordination of regulations (01.03.-30.12.2010);
- iii) training and briefing of users (01.10.-30.11.2010).

Ministries shall be prepared to provide their IT systems with changes related to the requisite information in payment orders (BIC-based account numbers, partially changeable reference numbers).

7. State fees

Rates of state fees will be converted into euro, rounding amounts determined in kroons in the direction more favourable for the person, if possible. The following principles will be used as a basis:

- i) Pursuant to the principles of charging of fees, the rate of a state fee shall cover direct and indirect expenses related to the execution of the respective operation; therefore, the rate of the state fee must not fall below the limit of coverage of expenses due to conversion.
- ii) An amount of up to 10 euro will be accepted in cash (at present, 100 kroons). Abolition of cash payments is not planned¹⁵.
- iii) Bodies charging state fees shall execute cash transactions in both currencies during the transitional period, as is the case with the private sector.

Rates of state fees are converted into euro in cooperation between institutions of the state and local government entity performing operations subject to charge of a fee. The State Fees Act in its new wording was passed on April 22nd, 2010 (RTI, 25.05.2010, 21, 107).

8. Local governments

The preparations of local governments for the introduction of the euro are based on the general principles presented in the Changeover Plan. Local governments shall ensure timely implementation of legal and technical preparations necessary due to the changeover to the euro, especially adjustments of the IT systems.

In the end of the year 2009, the Ministry of Finance submitted an appeal to local governments and their national associations, stating that local governments should commence technical and legal preparations in good time. In 2010, information days and seminars have been held with the local governments and their umbrella organizations in order to prepare for the transition to the euro. The local governments have also appointed contact persons for the issues of transition to the euro.

¹⁵ With respect to operations subject to charge of a fee, the option of cash payments should be preserved despite the increasing trend of electronic payments, especially for operations performed by the Citizenship and Migration Board and foreign missions of Estonia. At present, at least 35 institutions accept cash payments.

The following actions have been taken in order to support the local governments' preparations for the transition to the euro:

- a) a separate section on the Euroweb has been prepared;
- b) guidelines have been provided concerning dual display of prices and charges;
- c) an instruction has been devised for local governments, addressing the organization of transition of accounting entities to the euro and development of IT systems.

For issues related to local taxes, see the chapter on taxation.

CONSUMER PROTECTION

1. Dual display of prices of goods and services

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

Consumers will have difficulty accepting the new currency immediately. The new bank notes and prices need getting used to, especially given the exchange rate which does not allow for a simple conversion. The period of dual display of prices (six months before and after the €-Day) allows consumers to get used to prices in the new currency and adapt to different numerical values. However, the obligation to display price in both currencies is limited in order to prevent extensive additional expenses being forced on entrepreneurs, which in its turn would cause price increase.

The Regulation of the Minister of Economic Affairs and Communications No. 76 of April 14th, 2004 “Requirements to the Display of Prices of Goods and Services” was amended (entry into force on September 1st, 2006) by complementing it with rules for conversion of prices from one currency to the other. The mandatory period of display of prices in both currencies was set for July 1st, 2010 to June 30th, 2011, as prescribed in the Regulation of the Minister of Economic Affairs and Communications from June 1st, 2010. At the same time, a detailed instruction about the application of the Regulation was issued. During the aforementioned period, traders shall display the selling price of goods, the unit price of loose, non-pre-packaged goods and the selling price of service or rates applied for calculation of the selling price both in Estonian kroons and in euro on printed or hand-written price tags and price lists at points of sale of goods and services. This ensures that consumers are provided with dual display of prices in all shops and points of sale selling commodities where consumers obtain most of their daily purchases. The price shall be displayed in dual value also when goods or services are provided via e-commerce; alternatively, the consumer shall be provided with the opportunity to easily convert the price from kroon to euro and vice versa (e.g. a price calculator on the trader's website). The observance of the Regulation is monitored by the Consumer Protection Board which will publish information on inspections, incl. detected major violations, on its web site.

2. “Fair price formation”

Fair price formation plays an essential role in minimizing the price increase related to the changeover to the euro.

Rules for conversion and rounding of prices were established by the aforementioned Regulation of the Minister of Economic Affairs and Communications. Conversion will be performed at the central exchange rate of 15.6466. Rounding shall be performed to the accuracy of at least one euro cent. Prices may also be indicated at a value below one euro cent (e.g. 0.008 euro) which helps to prevent price increase due to rounding in case

of lower service charge rates. Traders shall observe the rounding rules while converting prices from one currency into the other.

In the context of introduction of the euro, traders should attempt to minimize price changes and refrain from increasing of prices due to the changeover to the euro. For this purpose, a respective agreement was prepared under the authority of the Estonian Chamber of Commerce and Industry and with participation of other enterprise organizations and the Consumer Protection Board. Entrepreneurs have been able to enter into the agreement from August 28th. In order to promote entering into the agreement, an information campaign was launched on 23.08.2010 and the logo "€ hinda ei tõsta" (The € will not increase the price) was adopted in order to distinguish traders having entered into the agreement.

3. Price comparisons

Changes in price levels will be monitored prior to and following the introduction of the euro, in order to obtain an overview of price fluctuations related to the introduction of the euro. The public will be informed about the price comparisons, with the following purposes:

- i) to preserve 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 increasing prices .

The Consumer Protection Board performs regular (monthly) price monitoring which includes most frequently consumed food products, basic commodities and most frequently used services. The price monitoring will be continued for at least six months following the €-Day. The results of the price monitoring are regularly published in the newspaper Maaleht and on the web page of the Consumer Protection Board. Commissioned by the Ministry of Agriculture, Estonian Institute of Economic Research conducts monitoring of prices of basic food products in markets and stores throughout Estonia. The price information is published on the web page of the 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 are sufficiently informed about impacts and practical changes due to the changeover to the euro. The Estonian communication strategy and the accompanying action plan have been completed in cooperation between the communication task force and interest groups representing the major entrepreneurs and consumers.

The attention is primarily focused on the general public and entrepreneurs, as their being informed in time and readiness are essential in order to ensure a problem-free changeover. Identification of other target groups was based on the specific features of information needs. Thus, additional information is being provided for pensioners, journalists, preschool children, schoolchildren and disabled persons by way of special information materials and channels.

Communication actions and messages focus on practical aspects of the changeover process – the questions concerning the introduction of the euro that will probably emerge among people. Information materials intended for the general public, including minorities and groups more difficult to access, contain the schedule of the changeover, topics related to the exchange rate, visual appearance and security features of the new currency, information on consumer prices etc. Information intended for the business sector includes topics such as amendments to the legislation, clarifications of accounting rules, application of IT, the rounding rule and dual display of prices, etc. Risk groups receive information about the changeover prepared with consideration to their special needs.

The communication action plan functions as the practical output of the communication strategy. The action plan envisages application of various types and channels of communication incl. local and national press, TV and radio, information hotline, Internet, mail, folders and brochures, outdoor advertising, as well as partners within the public, the private and the third sector. For certain target groups, personal communication through lectures, discussions and round-table meetings should prove the optimal solution.

The main official information centre of euro communication is the Euoweb at euro.eesti.ee. The Euoweb continually intermediates the entire information flow related to the changeover to the euro, simultaneously functioning as a channel for distribution of euro-related messages and feedback from the public and providing an internal working environment for the euro communication team. All printed information materials intended for various target groups and other campaign materials are available on the Euoweb. The communication activity is also reported to the public via the network.

Prior experiences of other countries within the euro area and their advice contributed to the preparation of the euro changeover communication plan. Moreover, recommendations by the European Commission have been taken into account in the planning of communication. Implementation of the euro communication plan is supported by the state budget, Eesti Pank, the European Commission and the European Central Bank.

APPENDICES

Appendix 1. Membership of the Task Forces

Expert committee:

Chairman: Tea Varrak, Secretary General of the Ministry of Finance.

Members:

Aare Järvan, State Chancellery, Adviser of 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;
Rein Minka, Eesti Pank, Vice President;
Juhan Lepassaar, State Chancellery, Director of European Affairs
Kaja Tael, Deputy Secretary-General of the Ministry of Foreign Affairs.

Joint task force of Eesti Pank and credit institutions:

Chairman: Rein Minka, Eesti Pank, Vice President.

Members:

Katrin Talihärm, Eesti Pangaliit;
Aet Sorokolet, the Estonian branch of Svenska Handelsbanken AB;
Arvo Juhkami, the Estonian branch of Danske Bank AS;
Erki Kilu, AS LHV Pank;
Hanno Hussar, AS Swedbank;
Irene Usvasalo, the Estonian branch of Pohjola Bank plc;
Jüri Kats, Tallinna Äripanga AS;
Kairi Evard, the Estonian branch of Bank DnB NORD AS;
Priit Kuusik, AS SEB Pank;
Regina Raag, the Estonian branch of Nordea Bank Finland Plc;
Ruslan Mahhov, BIGBANK AS;
Signe Madisson, the Estonian branch of AS UniCredit Bank;
Sofia Krist, the Estonian branch of AS Citadele banka;
Sven Raba, MARFIN PANK EESTI AS;
Tuuli Pärenson, AS Eesti Krediidipank;
Ursula Altmets, NASDAQ OMX Tallinn Aktsiaselts;
Ingrid Krieger, the Financial Supervision Authority.

Five sub-task forces have also been formed under the joint task force of Eesti Pank and credit institutions: i) card payments task force, ii) task force for commercial processes of account currency, iii) technical task force of account currency, iv) cash task force, v) ATM task force.

Business environment task force:

Chairman: Veiko Tali, Ministry of Finance, Deputy Secretary-General.

Members:

Sören Meius, Ministry of Finance, Chief Specialist of the Entrepreneurship and Accounting Policy Department;

Jaak Tõrs, Eesti Pank, Head of the Financial Intermediation Department;
Merike Kompus, Ministry of Economic Affairs and Communications, Deputy Secretary-General;
Mait Palts, Estonian Chamber of Commerce and Industry, Head of the Policy Planning and Legal Department;
Marek Sepp, Estonian Confederation of Employers and Industry, lawyer;
Indrek Niklus, Ministry of Justice, Head of the Private Law Division;
Kilvar Kessler, Financial Supervision Authority, Member of the Management Board;
Julia Segerkrantz, Estonian Securities Centre, Executive Manager of AS Eesti Väärpaberikeskus;
Eero Kaup, Estonian Accounting Standards Board, Member.

Task force for technical readiness of governmental institutions:

Chairman: Marek Helm, Ministry of Finance, Deputy Secretary-General.

Members:

Kalju Kukk, Ministry of Environment, Acting Head of the Financial Department;
Malle Soidla, Ministry of Foreign Affairs, Director General of the Financial Department;
Piret Meelind, Ministry of Justice, Centre of Registers and Information Systems;
Peeter Seestränd, Ministry of Agriculture, Acting Deputy Secretary-General of Foreign Affairs and Development;
Anu Angerjas, Ministry of Education and Research, Deputy Head of the Analysis and Planning Department;
Margit Pado, State Chancellery, Head of the Financial Department;
Indrek Eensaar, Ministry of Culture, Head of the Information Technology Office;
Marelle Erlenheim, Ministry of Social Affairs, Secretary General;
Andres Uusma, Ministry of Economic Affairs and Communications, Head of Budget Department;
Mihkel Tammet, Ministry of Defence, Head of Procurement Department;
Riho Kuppert, Ministry of Internal Affairs, Head of Financial Department;
Martin Põder, Ministry of Finance, Head of the EU and International Cooperation Department;
Merle Wilkinson, Ministry of Finance, Head of the State Treasury Department;
Ruth Paade, Tax and Customs Board, Head of the Revenue Department;
Kaja Sõstra, Statistics Estonia, Head of the Methodology Department.

Consumer protection task force:

Chairman: Merike Kompus, Ministry of Economic Affairs and Communications, Deputy Secretary-General.

Members:

Tiit Rebane, Ministry of Finance, Adviser of the Legal and Administrative Department;
Mait Palts, Estonian Chamber of Commerce and Industry, Head of the Economic Policy and Legal Department;
Marika Merilai, Estonian Traders' Association, Executive Director;
Andres Sooniste, Consumer Protection Board, Director General;
Riina Piliste, Ministry of Economic Affairs and Communications, Adviser of the Trade Services of the Internal Market Department;
Linda Läänesaar, Consumer Protection Association, Executive Director;
Anne Laar, Ministry of Economic Affairs and Communications, Head of the Trade

Services of the Internal Market Department;
Veiko-Joel Kokk, Eesti Pank, Deputy Head of the Legal Department.

Legislative drafting task force:

Chairman: Tiit Rebane, Ministry of Finance, Adviser of the Legal and Administrative Department.

Members:

Kadi Kapral, Eesti Pank, Head of the Legal Department;
Veiko-Joel Kokk, Eesti Pank, Deputy Head of the Legal Department;
Külliki Puusild, Ministry of Justice, Adviser of the Private Law Services of the Legal Policy Department;
Sören Meius, Ministry of Finance, Chief Specialist of the Entrepreneurship and Accounting Policy Department.

Communication task force:

Chairman: Tanel Ross, Ministry of Finance, Deputy Secretary-General.

Members:

Kaja Kell, Eesti Pank, Head of the Public Outputs Sub-department of the International and Public Relations Department;
Ingrid Mitt, Eesti Pank, Leading Specialist of the Public Relations Bureau of the International and Public Relations Department;
Liina Kersna, Head of the Government Communication Office;
Villu Känd, Head of the European Union Information Service of the Government Communication Office;
Livia Vosman, Ministry of Finance, Head of the Public Relations Department;
Martin Pöder, Ministry of Finance, Head of the EU and International Affairs Department;
Kersti Luha, Ministry of Foreign Affairs, Director General of the Public Diplomacy Department;
Kalev Vapper, Ministry of Economic Affairs and Communications, Head of the Public Relations Department;
Jana Rosenfeld, Ministry of Social Affairs, Public Relations Department, Adviser on Media Relations;
Pille Vaher, European Commission Representation in Estonia, Head of the Media Department;
Hanna Turetski, Consumer Protection Board, Head of the Consumer Policy and Public Relations Department;
Ingvar Bärenklau, Ministry of Finance, Project Manager of Euro Communication;
Ülle Kroon, Ministry of Finance, Coordinator of Euro Communication.

Task force for monitoring and accounting for fulfilment of the changeover criteria

Chairman: Ivar Sikk, Ministry of Finance, Deputy Secretary-General.

Members:

Andrus Säälik, Ministry of Finance, Head of the Macroeconomic Policy Department;
Agnes Naarits – Statistics Estonia, General Government and Financial Sector Statistics Department;
Viktoria Trasanov – Statistics Estonia, Price and Wages Statistics Department;
Ülo Kaasik - Eesti Pank, Head of the Central Bank Policy Department.