



**EMU GOVERNANCE AND EURO CHANGEOVER:
CYPRUS ON THE PATH TO THE ADOPTION OF THE EURO**

NICOSIA, 30 NOVEMBER 2006

SESSION 4: ADDRESSING PUBLIC CONCERNS

PRESENTATION OF THE VIEWS OF THE RETAIL SECTOR

***BY MANTHOS MAVROMMATIS, PRESIDENT OF THE
CYPRUS CHAMBER OF COMMERCE AND INDUSTRY***

Distinguished guests,
Ladies and gentlemen,

It gives me great pleasure to be here with you today, at this very important and timely, allow me to say, Conference on the EMU, the Euro Changeover and Cyprus' path to the adoption of the Euro. The mere fact that the Conference is organised jointly by the Cypriot authorities and the European Commission adds to its importance but at the same time makes all of us realise how crucial it is to ensure that the transition of our country to the euro will be as smooth and as problem-free as possible.

Today I' m here on behalf of the Cyprus Chamber of Commerce and Industry to present to you the views of the retail sector on addressing public concerns.

I would like to start by providing some interesting data from the last Eurobarometer survey (October 2006) concerning the introduction of the euro in the new member states:

- Cypriots are quite familiar with both the euro banknotes and the euro coins. Over 80% have seen euro banknotes and over 70% have used them, while the

same percentage has seen and used euro coins. In fact Cyprus is placed in second position, in this respect, after Slovenia.

- The majority of Cypriots (61%) believe (wrongly of course) that member states can choose whether to adopt the euro. This places Cyprus in the fourth position among the new member states.
- The majority of Cypriots (83%) are aware of the expected date of the euro adoption in Cyprus.
- The majority of Cypriots (60%) feel that they are not well informed about the euro and want to be informed as soon as possible about it (59%). In fact, they have the highest desire to be informed as soon as possible among all new member states citizens. They want to be particularly informed on the value of the national currency in euros, on how to avoid being cheated and on the general scenarios on how the euro will be introduced in the country. Their preferred information tools are the dual display of prices, newspapers and television.
- Cypriots are the most pessimistic among all new member states citizens about the possible consequences of changing their currency. Only 29% believe there will be positive consequences.
- The majority of Cypriots (59%) also believe that the people in their country are against the introduction of the euro. This places them again in top position among the new member states.
- A similar majority (58%) is unhappy about the replacement of the national currency with the euro. This places them in the second position among the new member states, after Latvia.
- Only 11% of Cypriots believe that the euro will help to maintain price stability, being again the most pessimistic among the new member states citizens. On the contrary, the majority (71%) believes that the euro will spark inflation, again

being the most pessimistic in this respect among the new member states citizens.

- As regards the effects of the euro introduction:
 - 38% of Cypriots believe it will ensure lower interest rates and debt charges (third most optimistic belief among the 10 new member states)
 - 35% of Cypriots believe it will ensure sounder public finances (most pessimistic belief among the 10)
 - 39% of Cypriots believe it will improve growth and employment (fourth most optimistic belief among the 10)
- The majority of Cypriots (54%) believe that using the euro will not make them feel more European. A greater majority was only recorded in Hungary.
- Finally, as regards the fears about the euro:
 - 51% of Cypriots believe that the introduction of the euro will cause them a lot of personal inconvenience (the most pessimistic belief among the 10)
 - 84% of Cypriots are afraid of abuses and cheating on prices during the changeover (again the most pessimistic attitude among the 10)
 - 46% of Cypriots believe that the adoption of the euro will mean loss of control over the country's economic policy (most pessimistic belief after Latvia)

The lessons to be drawn from the above are that:

- There is an imminent and pressing need for providing Cypriots with proper information about the euro. Cypriot consumers seem to be not well informed about the issue or even to be misinformed.
- Even though they are familiar with euro banknotes and coins the majority believes that the negative consequences of the introduction of the euro will

outnumber the positive ones. Their fears primarily concern the rising of prices (i.e. inflation) and the possibility of abuses and cheating on prices during the changeover.

We truly believe that these beliefs are completely unfounded and are primarily due to the fact that the public is unfortunately not well informed or even misinformed about the whole issue. The experience of the introduction of the euro in the 12 member states back in 2002 certainly does not vouch for the rise in inflation, since inflation rates have not exceeded 2,4% per annum. The fear of abuses and cheating on prices might be due to the Greek experience, which is however not typical of the general experience in the other member states that adopted the euro so far. Furthermore, it should be stressed that Cyprus is more comparable with Ireland, the only country that has adopted the Euro with a national currency value higher than that of the Euro. In Ireland there was no rise in prices but on the contrary there was a small fall in prices during the changeover. I would also like to stress that in Cyprus we will have a long dual price display period (around 10 months), before and after the adoption of the euro, while a series of measures are foreseen against unjustifiable price increases.

On our part, as the leading representative of businesses in Cyprus and of course the retail sector, which will undoubtedly play a major role in the transition to the euro, we have already supplied a lot of information to our member-enterprises and were the first organisation in Cyprus to publish, last June, a practical and comprehensive guide addressed to enterprises, entitled: "Prepare for the Euro". I would indicatively like to mention that the following advice / strong recommendations were provided to businesses and particularly the retail sector ones, in a comprehensive Chapter entitled: "The Right Behaviour":

- Strict implementation of the conversion and rounding rules
- Clear, recognisable and readable dual price display
- Display of conversion rate and conversion table in premises
- Adherence to the Ministry of Finance and Central Bank's recommendations concerning dual display before the fixing of the final conversion rate between the euro and the Cyprus pound

- Never alter prices to the detriment of the consumers
- Set the new “psychological” prices to the benefit of the consumers
- Try as much as this is possible not to increase prices during the transition / changeover period
- Think whether to voluntarily prolong the dual price display period
- Proper handling of the transactions with customers during the parallel circulation period. Ensuring all point of sales equipment (and generally all the I.T. systems) will be functioning properly, ensuring adequate frontloading with notes and coins, ensuring the issuing of the right invoices / receipts, establishing currency collection points where customers will deposit their national currency in return for a voucher to be used towards their shopping bill
- Proper and timely staff training
- Investment in educating the customer
- In case of use of vending machines, coin machines and meters, ensuring their uninterrupted functioning without taking advantage of the consumer

Based on the experience of the member states that already introduced the euro, we are certain that the retail sector will be the interface between consumers and business and its role is crucial in addressing public concerns and ensuring the success of the transition. The general public will use the retail outlets rather than banks as the exchange point for their national currency cash. Therefore we have urged the retailers to plan carefully the whole exercise and absorb the costs without any impact on the selling price or the quality of service. We believe that the fact that the majority of consumers (as per the findings of the

Eurobarometer survey) is familiar with the euro banknotes and coins will also help in this direction.

We would, at the same time, like to urge the government to proceed without any other delay in tabling the relevant bill of law concerning the introduction of the euro to the House of Representatives for enactment, to decide on the details of the frontloading, to ensure that cash dispensers will issue 5 euro notes as well to the public and even to provide (in co-operation with the credit institutions) the possibility to the public to start exchanging the national currency into euro at the irrevocably fixed conversion rate, without any charges, as from 1 December 2007. We truly believe that all the above will help to address positively the public concerns. What is more important though, is that the government starts to implement without any delay its Strategic Communication Plan for the Adoption of the Euro involving all stakeholders in the process. Furthermore, we believe that the opening of banks (or at least a number of branches) for the exchange of currency on 1/1/2008 will also prove to be conducive in addressing positively the public concerns and ensuring the smoothest transition possible.

It is in our opinion imperative that the right messages are conveyed to the public in order to address their concerns and reassure them that their "fears" will not materialise. It should be pointed at the same time that the benefits from the introduction of the euro, outweigh the disadvantages. In the guide that our Chamber has published we have directly addressed these concerns through the following information / messages / arguments:

- The economy of Cyprus is healthy (and meets the Maastricht criteria)
- The Cyprus pound is pegged to the Euro since 1999, observing a narrow fluctuation margin of +/-2.25% and is included in the ERM II since 2 May 2005 again observing the narrow margin of +/-2,25%
- There will be a long dual price display period, probably covering the period September 2007 – June 2008
- There will be a one-month parallel circulation period (January 2008)
- There will be automatic bank account conversion without charges

- There will be free exchange of the national currency with the euro from January 2008 – June 2008 by the credit institutions, up to a limit per transaction
- Credit institutions will accept for deposit any amount of Cyprus pounds without charge during the period January 2008-June 2008
- The Central Bank of Cyprus will continue to freely exchange Cyprus pounds into euro for a period of 10 years after 1/1/2008 in the case of banknotes and 2 years in the case of coins
- There will be clearly visible conversion tables in all retail stores
- There will be special provisions concerning post – dated cheques
- There will be adequate frontloading of credit institutions and retail outlets with euro banknotes and coins
- The continuation of contracts will not be affected at all
- There will be replacement of all sums mentioned in legislation, regulations and official documents (tax and VAT returns, customs documents, e.t.c.) into euro. Furthermore, the value of all share and debenture titles will be expressed in euro, while all stamps (postage and other) that are expressed in Cyprus pounds will be exchanged with stamps expressed in euro
- The government but also other stakeholders will engage in a rigorous communication campaign
- The Consumer Associations will monitor the situation closely

- The Committee for the Protection of Competition will be closely involved

- Euro observatories will be established in all districts for the protection of the consumers

- There will be heavy fines for those that will not comply with the legal and regulatory framework

- The vast majority of Cypriot enterprises is both honest and credible

- There will be a wide range of benefits for the economy and the consumers including:
 - macroeconomic stability
 - monetary stability
 - benefit to the public finances
 - rational developmental, economic and social policy
 - real increase in competitiveness and improvement of the prospects for economic development
 - protection of purchasing power due to strong currency
 - reduction of interest and inflation rates
 - ease of price comparison with prices in other eurozone countries
 - positive impact on tourism
 - positive impact on travelling abroad
 - positive impact on foreign investment
 - probable price decreases, as the Irish experience shows, Ireland being a country comparable with Cyprus in the sense that the value of its national currency was higher than the value of the euro when it joined the eurozone
 - elimination of foreign exchange procedures, charges, fluctuation risks
 - greater access to credit facilities and financial services
 - benefits as a result of increased competition in the financial sector

We believe that if we keep conveying the above messages to the public until the introduction of the euro and even beyond, the fears and reservations will be largely eliminated.

We see a particularly important role for Consumer Associations in addressing public concerns, but we also expect the consumers themselves to have their eyes open and assume their own responsibility in protecting their interests.

On our part, as representatives of the business and of course the retail sector, we are doing everything we can to ensure a smooth and problem free transition but also to address the public concerns. We are always open to suggestions and ready to co-operate with both the government and all other stakeholders to ensure that this aim will be achieved to the greatest possible extent.

Thank you.

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