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REPORT FROM THE COMMISSION

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

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

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

1. INTRODUCTION

The Council decided on 9 July 2013 that Latvia fulfils the necessary conditions for the adoption of the euro¹. Latvia will adopt the euro on 1 January 2014 ("€-day"), bringing the total number of Member States that have adopted the euro to eighteen. The conversion rate between the Latvian lats and the euro has been irrevocably fixed at 0.702804 Latvian lats to one euro².

The practical preparations for the changeover have entered the final phase. Euro banknotes and coins will acquire legal tender status on the day of euro adoption (so-called "big bang" changeover scenario). Following the first dedicated report of the Commission on Latvia's practical preparations for introducing the euro³, this Report assesses further progress made until end of October 2013. It addresses in particular the preparations for the introduction of euro cash, the measures put in place for protecting consumers in the changeover period, such as the "Fair Euro Introducer" campaign, and the communication campaign.

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

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

Since the last Commission report, the Latvian authorities and involved stakeholders have achieved overall significant progress with a view to a smooth and successful changeover.

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

Latvia's National Euro Changeover Plan of 19 September 2012 was last updated on 4 April 2013. Further progress regarding the adaptation of the legal system to the euro was achieved with the adoption of amendments to 113 laws by the Saeima on 19 September 2013. Amendments to Cabinet regulations and municipal regulations are still on-going. The

¹ Council Decision 2013/387/EU of 9 July 2013 on the adoption by Latvia of the euro on 1 January 2014 (OJ L 195, 18.7.2013, p. 24).

² Council Regulation (EU) No 870/2013 of 9 July 2013 amending Regulation (EC) No 2866/98 as regards the conversion rate to the euro for Latvia (OJ L 243, 12.9.2013, p. 1).

³ Report from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions - Twelfth Report on the practical preparations for the future enlargement of the euro area of 23 July 2013 - COM(2013) 540 final.

conversion of IT-systems is proceeding according to plan. An IT risk registry has been established listing the crucial IT-systems of public administration.

2.2. Preparations for the cash changeover

400 million euro coins bearing Latvian national sides and **110 million euro banknotes** of various denominations are required for the changeover. Minting of the coins at the Staatliche Münzen Baden-Württemberg (Stuttgart, Germany) has started in July 2013. The euro banknotes have been borrowed from Deutsche Bundesbank.

Frontloading to credit institutions is due to start on 1 November 2013. **Regular sub-frontloading** to commercial banks' major clients will start on 10 December 2013, smaller corporate clients using **simplified sub-frontloading** will be delivered euro cash as of 27 December 2013. Post offices will receive euro cash via sub-frontloading by Citadele Bank. The exact amounts required for frontloading and sub-frontloading are not yet available, since banks may submit requests until 1 November 2013. It is estimated that frontloading and sub-frontloading will amount to some 25 million euro banknotes and some 192 million euro coins, each in various denominations.

800,000 **starter kits** for the general public will be available as of 10 December 2013 via 339 branches of commercial banks, 302 post offices and the branches of Latvijas Banka (the Bank of Latvia). Packed in plastic bags, the starter kits will each contain a mix of all Latvian euro coins denominations (value: 14.23 EUR). Preliminary demand for starter kits is already high (some 720,000 starter kits have been ordered). In order to ensure a sufficient dissemination across households and impede hoarding, not more than five starter kits will be sold per person. Furthermore, 70,000 **specific kits for retailers** (each containing 200 EUR) will be available as of 10 December 2013. However, given that 200 EUR is a rather high amount for smaller enterprises in Latvia, it is possible that small retailers will acquire the necessary euro cash for €-day by purchasing several "regular" starter kits. Therefore, the demand for starter kits should be carefully monitored by the Bank of Latvia. Foreign collectors and coin selling companies may purchase remaining starter kits and Latvian euro coins only after 1 January 2014. Special euro coin sets for collectors will be produced – 30,000 coin sets of BU (brilliant uncirculated) quality and 5,000 sets of proof quality, i.e. with coins struck using a special minting process. The date of issuance will be 1 January 2014 for both sets.

Against the background of the increased security risk, a security action plan has been developed providing for measures enhancing the safety of cash transports by the Cash-in-transit (CIT) sector during the changeover process. A dedicated action plan has been set up to address possible bad weather conditions.

Lat cash in circulation has decreased since the beginning of the year, but figures are still high. The value of lat banknotes and coins to be withdrawn was 971 million LVL on 30 September 2013. Demonetization of lat coins has started on 5 September 2013. With a view to reducing lats cash before €-day, several banks have offered their clients to deposit lat coins on savings accounts free of charge since October 2013. Moreover, Bank of Latvia offers unrestricted and free of charge exchange of lat coins into lat banknotes. Commercial banks have stepped up promoting non-cash payments to clients. Big food retailers have joined this initiative. In order to reduce the number of high denomination lat banknotes in circulation towards €-day, CIT companies and enterprises have been encouraged to refrain from ordering high denomination banknotes. With a view to the importance of cash as a means of payment

and as a store of value in Latvia, it is of particular importance that these measures will be continued and stepped up in the remaining weeks where possible.

During the changeover, commercial banks and post offices will have to handle exceptionally high amounts of cash. In order to facilitate the logistics of the withdrawal of lat coins, CIT companies and commercial banks are being provided with standard mobile containers to be used for coin collecting, storage and transportation.

Starting on €-day, the Bank of Latvia will change unlimited amounts of lats into euro for an unlimited period of time and free of charge. Bank of Latvia branches will be open on 1 January 2014 for providing cash exchange operations to the general public.

The **Latvian banking sector** comprises 25 banks with 371 branches, out of which 19 banks with 321 branches provide cash services. Commercial banks will provide unlimited cash exchange services free of charge for six months after €-day. To facilitate the process, some banks will extend business hours in the last weeks of the year. The four largest banks (149 branches) will be open on 30 December 2013 which is a bank holiday in Latvia. All 96 branches of the two largest banks will be open for a short business day on 31 December 2013. On 1 January 2014, 22 branches of the three largest banks will be open during the afternoon. Several banks will deploy additional staff in branches (one to two bank clerks per branch) for cash operations during the dual circulation period (first two weeks of January 2014). Cash collection services will be proactively provided to retailers and other business clients. Counting and storage facilities in the branches are currently being adjusted.

Automatic teller machines (ATMs) will be loaded with euro cash mainly in the last days of December 2013. 99.8% of the 1,061 ATMs in Latvia will distribute euro banknotes within the first 30 minutes of 1 January 2014. ATMs which may not be adapted on time should be closed. ATMs will mainly be loaded with denominations of 10, 20 and 50 EUR. Denominations of 5 EUR will be available at 242 ATMs as of 1 January 2014 and at 460 additional ATMs as of 15 January 2014. The use of mainly low denomination banknotes in ATMs is a good practice with a view to reducing the risk that retailers run out of euro change quickly. Banks have also been advised not to disburse high denominations at the counters in the weeks following €-day. Point-of-sale (POS) terminals will switch instantaneously to euro on 1 January 2014. Banks' clients have been encouraged to use electronic payments more often in particular in the first days following €-day. 99.3% of POS are already Single Euro Payments Area (SEPA) compliant. The adjustments of banks' IT systems are on-going; the final testing is scheduled for late November/early December 2013.

Since late September 2013, Bank of Latvia has offered, together with the Employers' Federation of Latvia, **trainings** for cash handlers and accountants on euro cash in general and security features in particular. These trainings, which are expected to cover 26 cities in all regions by the end of November 2013, are attended in particular by retailers and post office employees ("train the trainer"). Bank employees have received specific training by their employers on the general principles of the euro introduction and its implications on bank services as well as availability of bank services around €-day.

In order to improve the access to cash exchange services in particular in rural areas, Latvijas Pasts (the **Latvian Post**) will play an active role in the cash changeover. Cash exchange services will be offered to the general public in 302 post offices for three months starting on €-day (subject to extension up to three more months). Post offices will not open on 1 January 2014, but against usual practice on the Saturday (4 January 2014).

Preparations for the cash changeover are well advanced. Preliminary demand for starter kits is already high and should be carefully monitored by the Bank of Latvia.

Against the backdrop of the importance of cash as a means of payment and as a store of value in Latvia, it is of particular importance that measures for decreasing lat cash in circulation will be continued and stepped up towards €-day wherever possible. Banks should consider offering their clients free of charge exchange of lat coins into lat banknotes.

It is very positive that 99.8% of ATMs will distribute euro banknotes within the first 30 minutes of 1 January 2014. ATMs which may not be adapted on time should be closed. The use of mainly lower denomination banknotes in ATMs is a good practice with a view to retailers' obligation to give change exclusively in euro as of €-day. Banks and post offices should also refrain from distributing high denomination banknotes at the counters in the weeks before and after €-day.

The banks and the Latvian Post should prepare carefully for a considerable extra work load and much larger number of customers in the first days of January 2014.

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

The public opinion in Latvia is concerned about the possible impact of the changeover to the euro on prices (see Section 3 below). It is therefore particularly important that Latvian authorities take all necessary steps both to prevent abusive practices and dispel erroneous perceptions of the evolution of prices.

Since January 2013, **prices of 120 frequently purchased products and services** in the most popular points of sales in the seven biggest cities of Latvia have been **monitored** by the company "Aptauju centrs". Monitored services include services which, based on the experience of previous changeovers, are most likely to be affected by changeover related increase of prices such as hairdressers, restaurants and cafés and car repair services. The results of the monitoring have been regularly published on the Ministry of Economics' and on the euro changeover website. Prices have all in all proven stable. From March to end of September 2013, on average prices have not changed for 86.53% of the products/services, whereas prices for 7.16% of products/services have dropped and price increases were identified in 6.51% of the monitored prices.

The compulsory **dual display of prices** in Latvian lat and euro has started on 1 October 2013 and will last until 30 June 2014. It is recommended to make sure by regulatory means that dual display of prices ends by 1 January 2015 and ensure that this end date is clearly communicated to the public, so that it makes good use of the period of dual display of prices to learn the new scale of value. This will make it easier for citizens to get fully accustomed to the new currency.

The **"Fair Euro Introducer" campaign** which invites businesses (e.g. retailers, financial institutions, internet shops) to commit not to misuse the changeover for their own profit, respect the changeover rules and provide the necessary assistance to their clients was launched on 12 July 2013. It is lead by the Latvian Ministry of Economics and supported inter alia by eight business organisations including the Latvian Chamber of Commerce and the

Employers' Confederation of Latvia. Subscribers to the campaign are entitled to use a sticker with a dedicated "Fair Euro Introducer" logo demonstrating their participation and are listed on a "white list" available on the Euro Project website.

As at end of October 2013, some 1,100 companies (more than 9,500 points of sale) which sell goods or services to consumers have joined the "Fair Euro Introducer" campaign. Participants include the five biggest retail chains. This participation rate is not satisfactory and still far from the already rather low target envisaged by Latvian authorities (participation rate of at least 70% of retailers, wholesale companies and service providers by 1 January 2014, i.e. some 10,000 companies or 30,000 points of sale). Latvian authorities intend to significantly strengthen the dedicated mass-media campaign and information activities which include radio, print media, internet advertising, social media and TV spots during the remaining weeks until €-day. It is positive that the Latvian Chamber of Commerce is an active partner promoting the "Fair Euro Introducer" campaign to its members. Full commitment of all stakeholders involved will be necessary to reach a maximum of participants before 1 January 2014. It should be envisaged to actively use specially trained volunteers to promote subscription to the campaign via door-to-door visits in the shops.

Compliance with the requirements for price display and conversion (e.g. rounding rules) during the dual display period and implementation of the "Fair Euro Introducer" Memorandum is **monitored** by the Consumer Rights Protection Centre (CRPC), non governmental organisations (NGOs) protecting consumer rights, the State Food and Veterinary Service and the State Revenue Service. Intensive controls have started on 1 October 2013. Following the first dedicated report of the European Commission on Latvia's practical preparations for introducing the euro, the total number of inspectors involved has been significantly increased (now 346 inspectors). Most inspectors are based in Riga. However, the inspectors from the consumer NGOs are based in 20 cities across all Latvian regions.

In October 2013, 5,570 controls have been carried out (total number of controls planned: 36,000). The CRPC and the Consumer Interest Protection Association made 3,746 checks and detected violations in 1,681 points of sale of which in most cases (1,082 points of sale) price conversion to euro was inaccurate. In 411 cases, prices were not indicated in euro at all. As at end of October, the violations were already remedied in 1,306 points of sale, in 803 points of sale this was done on the spot in the presence of a CRPC inspector. In case of repeated or severe violations a fine up to 500 LVL (711.44 EUR) may be imposed. So far, the CRPC has started administrative procedures in five cases. The State Food and Veterinary Service has carried out 1,745 price controls (violations detected in 129 points of sale) and the State Revenue Service 79 controls (violations detected in seven points of sale).

As regards the implementation of the "Fair Euro Introducer" Memorandum, businesses which do not eliminate violations identified by inspectors, repeatedly contravene against the requirements or the Memorandum and/or use unfair commercial practices in relation to price indication are put on a publicly available "black list". A company listed on the "black list" will no longer be eligible for listing on the "white list" and lose the right to use the logo of the "Fair Euro Introducer" campaign. It is recommended that the number and types of violations are monitored closely in the coming months with a view to facilitating appropriate reaction, including if necessary increased information on dual display implementation or price conversion. Moreover, against the backdrop of the state of public opinion (see Section 3 below), a swift reaction by authorities will be a key factor for reassuring citizens.

Since 1 October 2013, consumers can submit complaints on violations of price indication rules to the CRPC via a dedicated complaints telephone line, the general euro information hotline, e-mails and letters. In October, the CRPC has received 180 **consumer complaints** of which 103 referred to price increases, 31 were about incorrect price conversion and 37 on missing price indication in euro. Complaints are followed up by the CPRC or a cooperating NGO within a maximum of 48 hours after the complaint has been lodged. Complaints on possible euro-related price increases are assessed by the Latvian Competition Council.

It is positive that the number of inspectors involved in the monitoring of dual price display and implementation of the "Fair Euro Introducer" Memorandum has been significantly increased. Swift reaction where businesses do not comply with the requirements for price display and conversion (e.g. rounding rules) or do not implement the "Fair Euro Introducer" Memorandum properly are crucial. It should be ensured that controls will be intensified as of 1 January 2014.

The uptake of the "Fair Euro Introducer" campaign has to be significantly improved. Full commitment of all stakeholders will be necessary to reach a maximum of participants before 1 January 2014. It should be envisaged to use special trained volunteers to promote subscription to the campaign. This should also include the consumer NGOs that are already monitoring the correct implementation of the dual displays, who could promote the "Fair Euro Introducer" campaign at the same occasion. All 119 local authorities should also subscribe to the campaign.

It is recommended to make sure by regulatory means that dual display of prices ends by 1 January 2015 and to ensure that this end date is clearly communicated to the public, so that it makes good use of the period of dual display of prices to learn the new scale of value. This will make it easier for citizens to get fully accustomed to the new currency.

2.4. Changeover preparations in rural areas and the preparations of enterprises

Against the backdrop of the cash oriented payment habits of Latvians, a thorough planning and preparation of the changeover procedures in rural areas will be crucial for a smooth changeover. Coverage of remote areas with cash points (post offices, bank branches and ATMs) has been mapped in order to ensure that facilities for exchanging lat for euro and retrieving legacy cash are in place in all areas. Moreover, a checklist of euro changeover actions has been created to facilitate monitoring of the progress on the municipal level. In November 2013, there will be targeted communication measures for citizens and enterprises in rural areas including vulnerable groups, minorities and the Russian speaking community. Latvian authorities have held more than 160 trainings on euro introduction in 2013, including regional fora and professional seminars (see Section 3 below).

These measures should prove useful during the changeover, since besides media and internet local authorities often serve as the only information provider in remote areas. During the final phase of the changeover full implementation of the actions identified on the checklist should continuously be monitored.

The participation of the Latvian Post in the changeover (see Section 2.2. above) will significantly improve the supply of cash exchange services in rural areas. Trainings for post office employees and couriers (nearly all employees in direct contact with clients) covering inter alia cash handling and security features have started on 1 October 2013 and are ongoing.

50 additional employees will support post office staff in the first weeks after €-day. Security measures, storage and counting facilities have been strengthened with a view to the changeover. Finally, the Latvian Post has prepared dedicated communication measures on the euro changeover.

Retailers have an important role in the changeover since customers tend to use them as 'mini-banks' to exchange national cash for euro (especially if there are no bank branches nearby). Most Latvian retailers including supermarket chains have only started preparing for the changeover after the Council decision of 9 July 2013. Further to the increased need for cash (see Section 2.2. above), crucial aspects for retailers include compliance with dual display of prices requirements and participation in the "Fair Euro Introducer" campaign (see Section 2.3. above), training of employees, adaptation of cash storage facilities and security measures and IT-related issues.

Preparations of the big food retailers seem well advanced. As at end of October 2013, most of them had estimated their cash needs for sub-frontloading and have concluded agreements with the banks on sub-frontloading. Main cashiers from each store will attend trainings offered by the Bank of Latvia (see Section 2.2. above) in November 2013 and then train their colleagues in-house. The training will include practical training of cash handling in two currencies. The IT-systems have been checked and are able to handle payments both in euro and Latvian lat, including mixed payments. Counterfeit banknote detectors will be installed where considered necessary. Tenders regarding increased security measures had been launched and negotiations with cash-in-transit companies had started as at end of October 2013. With a view to reducing the pressure on the cashiers and limiting waiting times at the tills, it is recommended to take additional measures such as using separate boxes for lat cash in order to directly and easily "take it out of circulation", opening information desks in large retail shops to answer customers' questions and hiring temporary staff for packing products.

Notwithstanding the good level of information available on the euro changeover practicalities also in the rural areas, small groceries (which have a market share of 30% in Latvia) still seem to be less prepared for the changeover and to fear the challenges and cost involved, in particular during the dual circulation period. Given the particular importance of small retailers in rural areas, it is recommended that these fears are addressed on local level and awareness raising measures are strengthened towards the end of the year.

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

Special attention should be paid to provide information on the changeover to elderly people with difficulties leaving their home. They may also need help with the exchange of their lat cash. Social workers should be trained in order to be able to answer basic changeover-related questions.

3. COMMUNICATION ACTIVITIES AND PUBLIC OPINION

After the Council Decision of 9 July 2013 the Latvian authorities have launched the intensive phase of the implementation of the euro changeover related communication activities.

The communication campaign, coordinated by the Ministry of Finance, involves a mix of communication tools and instruments (direct household mailing, seminars and trainings, social media, TV and print campaign) and is targeting various groups (e.g. general public,

school children, vulnerable groups, businesses). Complementary communication activities are undertaken by the State Chancellery, the Ministry of Economics, the Bank of Latvia, the Ministry of Education and Science, the Ministry of Education, the Latvian association of commercial banks and other public and private institutions.

The Ministry of Economics, in close cooperation with the Ministry of Finance, is implementing a “Fair Euro Introducer” campaign addressing the concern that the introduction of the euro will lead to price increases.

The mass media campaign started in September 2013 with different TV spots aiming at involving the public emotionally and explaining practical aspects of the euro changeover process. The campaign is complemented by print, radio, online and outdoor media advertising. In the media selection process, special attention is given to reaching vulnerable groups in remote areas and the Russian-speaking population.

The “Fair Euro Introducer” campaign is organised in two waves: the first phase starting in September with TV spots and media advertising aiming at informing businesses, inviting them to subscribe to the Memorandum and a second phase from October to December, aimed at informing consumers about the objectives of the campaign and encouraging them to shop at points of sale which have signed the Memorandum and hence are committed not to use the changeover period for abusive price setting.

Furthermore, “Regional Fora” for businesses and citizens took place in five cities in September and October. The Latvian Employers' Confederation, the Latvian Chamber of Commerce and the Latvian Traders Association organised workshops for businesses informing on the "Fair Euro Introducer" campaign, which included meetings with government officials and economists. At the event, businesses had the opportunity to join the initiative. The recent figures show that the participation of business can be further improved.

Regular seminars and events in the regions are taking place for businesses, professional cash-handlers and vulnerable groups. To inform teachers and school children, the Ministry of Education distributed to all schools an information brochure for teachers and produced cartoons to be introduced in the schools' curricula.

Several activities have been carried out to target both the visually and hearing impaired. Local "trainers" for regional society of the visually impaired people have been trained to provide further guidance to the relevant audiences on cash design, security features and general changeover modalities. "Cash tests", informative materials in Braille and audio cards have been widely distributed during the relevant seminars.

Direct mailing to all households in Latvia is scheduled for November 2013. Six regionally adapted versions are being prepared, one for each region of Latvia (Kurzeme, Vidzeme, Latgale, Zemgale, Riga), including a separate Russian language version.

In the framework of the Partnership Agreement, signed between the Latvian Ministry of Finance and the Commission on 10 July 2012, a number of joint communication activities were implemented: a Euro Changeover Conference in September 2013, a seminar for Latvian journalists and the travelling Euro Exhibition. The travelling Euro Exhibition was opened in Riga in September and will go to Daugavpils and Liepaja before the end of the year. The Commission also provided the Latvian authorities with various publications.

The European Central Bank cooperates with the Bank of Latvia with a view to enhancing synergies and maximising the impact of communication campaign activities. They launched an information campaign at the end of October which uses a wide range of tools (TV, print, online and outdoor advertising, as well as other information material) and focuses on the visual appearance of euro banknotes and coins, the security features and key facts and dates of the changeover. The European Central Bank's euro exhibition was opened in Riga on 25 October 2013.

The Commission closely monitors the opinion polls commissioned by the Ministry of Finance. The latest available results (October 2013) suggest a stable albeit modest support for the euro introduction – with 39% of the respondents being in favour (-1pp compared to September 2013).

The level of public awareness on the euro changeover related issues continues to increase, with 72% respondents considering themselves to be well-informed (+ 2pp compared to the results in September and +10 pp compared to April-May 2013). Furthermore, 94% of Latvians know that the day of euro adoption is 1 January 2014 (+33pp since April-May).

However, unwarranted price increases remain a serious concern for a large proportion of the Latvian population (83%).

The Commission will conduct Eurobarometer opinion polls in Latvia before, during and after the dual circulation period, starting in December 2013.

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