Problems the adoption of the EURO in Lithuania

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Introduction

The **Euro zone** (also called **Euro Area**, **Euro system** or **Euro land**) is the subset of European Union member states which have adopted the euro, creating a currency union. The **euro** has replaced the former national currencies. The single currency was introduced on 1 January 1999, but existed in the first three years only as electronic money. On 1 January 2002 euro banknotes and coins were put into circulation in the euro area member states, and the central banks began to withdraw the national banknotes and coins. As from 1 March 2002 the euro is the only legal tender in the euro area member states. Thirteen euro area member states have a single currency, a common interest rate and a common central bank. The European Central Bank is responsible for monetary policy within the zone.

1. Official members

In 1998 eleven EU member-states had met the convergence criteria, and the Euro zone came into existence with the official launch of the euro on 1 January 1999. Greece qualified in 2000 and was admitted on 1 January 2001. Physical coins and banknotes were introduced on 1 January 2002. Slovenia qualified in 2006 and was admitted on 1 January 2007 bringing total Euro zone membership to its current level of over 316 million people and thirteen member states.

1.1. Non-member states with formal euro agreements

Monaco, San Marino and Vatican City also use the euro, although they are officially neither euro members nor members of the EU. They previously used currencies that were replaced by the euro: Vatican and San Marino had their currencies pegged to the Italian lira (Vatican and San Marino lira) and Monaco used the Monegasque franc, which was pegged on a 1:1 basis to the French franc.

These countries use the euro by virtue concluded with EU member states in the case of San Marino and Vatican City, France in the case of Monaco, on behalf of the European Community. Those arrangements have been approved by the European Commission and the European Council. In virtue of these agreements, Monaco, San Marino and the Vatican City state are currently allowed to issue a limited amount of euro coins with their own national symbols on the obverse every year. In practice, Monaco's coins are minted by France, and coins for the Vatican and San Marino coins are minted by Italy. Nevertheless, coins issued by the Vatican, by Monaco and by San Marino are legal tender in the Euro zone, and vice versa San Marino, Monaco and the Vatican currently do not issue euro banknotes, using instead the ones issued by Euro zone member states / 2 /.

1.2. Non-member states without formal euro agreements

Andorra doesn't have an official currency and hence no specific euro coins. It previously used the French franc and Spanish peseta as *de facto* legal tender currency. There has never been a monetary arrangement with either Spain or France; however, the EU and Andorra are currently in negotiations regarding the official status of the euro in Andorra.

Likewise, Montenegro and Kosovo, which used to have the German mark as their *de facto* currency, also adopted the euro without having entered into any legal arrangements with the EU explicitly permitting them to do so. Kosovo uses the euro instead of the Serbian dinar, mainly for political reasons. As of 1 December 2002, North Korea has replaced the U.S. dollar with the euro as its official currency for international trading. Its internal currency, the won, is not convertible and thus cannot be used to purchase foreign goods. The euro also enjoys popularity domestically, especially among resident foreigners.

1.3. Non-Euro zone EU countries

The fourteen countries of the European Union that do not use the euro are: Denmark, Sweden, the United Kingdom, Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania and Slovakia.

Denmark and the United Kingdom obtained special derogations in the original Maastricht Treaty of the European Union. Both countries are not legally required to join the Euro zone unless their governments decide otherwise, either by parliamentary vote or referendum. Sweden, however, did not, and is technically obliged to introduce the euro at some point in the future.

People affected by the euro / 3 /

Category	**Population**	**Countries and territories**
Official members	317 million	Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovenia, Spain
Other European countries and territories using the euro	2.7 million	Andorra, Kosovo, Montenegro, Monaco, San Marino, Vatican City
EU countries with currencies pegged to the euro (or at a narrow margin)	27 million	Bulgaria, Cyprus, Denmark, Estonia, Latvia, Lithuania, Malta, Slovakia
Other European countries with currencies pegged to the euro	4 million	Bosnia and Herzegovina
African countries using CFA francs	110 million	Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Equatorial Guinea, Gabon, Guinea-Bissau, Mali, Niger, Republic of the Congo, Senegal, Togo
Other countries and territories with currencies pegged to the euro	35 million	Cape Verde, Comoros, Morocco, French Polynesia, New Caledonia,
Total	**496 million**	**44 countries and 5 areas**

The euro is the single currency for more than 317 million Europeans. Including areas using currencies pegged to the euro, the euro affects more than 480 million people worldwide. With more than €610 billion in circulation as of December 2006, the euro has surpassed the U.S. dollar in terms of combined value of cash in circulation.

2. INTRODUCTION EURO IN LITHUANIA

Despite a widespread belief to the contrary among their citizens, Lithuania and other new European Union member states have the obligation to adopt the common currency, the euro, once they have fulfilled the economic stability criteria defined in the Maastricht Treaty. At present most of them are working to meet the economic entry criteria on government deficit and debt, inflation, interest rates and exchange rate stability . They are all expected to join the euro area in due time.

There is no common strategy or fixed timetable with regard to the introduction of the euro in each of the newly acceded member states. At present, six New Member States have joined the Exchange Rate Mechanism II (Estonia, Lithuania, Latvia, Slovakia, Cyprus and Malta), while the three largest countries - Poland, the Czech Republic and Hungary - still remain outside of the common exchange rate mechanism (as one of the conditions, a country must have been a member of the ERM II for a minimum of two years before adopting the euro). Slovenia adopted euro on the 1st of January 2007.

There has been a lot of discussion in several Member States and in European bodies about whether or not adherence to the nominal convergence criteria laid out in the Maastricht Treaty - thus, a “too early” adoption of the euro - is useful for the New Member States. Some national governments see a conflict between the “Maastricht criteria” and what they call real convergence needs (e.g., catching up with the per capita national income, wages, public services). Internal debates in some countries have even led to speculation about possible referenda to be held about joining the euro zone, which would effectively be a second referendum on membership itself.

Concerning the introduction of the euro in the new EU countries, the European Commission is keeping track of general opinion, levels of knowledge and information and familiarity with the single currency of citizens of the New Member States.

2.1. Main tasks for the Bank of Lithuania

The Bank of Lithuania considered 1 January 2007 being the most acceptable date for the adoption of the euro in Lithuania. The choice of the date was based on Lithuania’s participation in Exchange Rate Mechanism II (ERM II) for two years, following which the European Commission and the European Central Bank had to publish convergence reports in the middle of 2006 on Lithuania’s economic, legal and institutional readiness to adopt the euro. Given a positive assessment, the Council of the European Union should take a decision regarding the exact date of the adoption of the euro in Lithuania as well as the final and irrevocable exchange rate of the litas and the euro.

Based on these assumptions, the Bank of Lithuania had planned what main tasks had to be undertaken while preparing for the adoption of the euro. The Board of the Bank of Lithuania approved a detailed action plan on 23 December 2004 / 4 /.

In the first half of 2005 the Bank of Lithuania drafted the Law on the Adoption of the Euro in Lithuania. Having taken into account remarks and proposals of concerned institutions and organizations, the Bank of Lithuania submitted the draft law to the Government of the Republic of Lithuania. In combination with the draft Law on the Adoption of the Euro in Lithuania, and taking into account its provisions, necessary amendments to the Law on the Bank of Lithuania, Law on the Credibility of the Litas, Law on Money, Law on Foreign Currency in the Republic of Lithuania and other laws were prepared.

In preparation for the adoption of the euro the Bank of Lithuania, in cooperation with the concerned institutions, was going to launch a public information campaign covering different aspects of the currency changeover in Lithuania in order to ensure transparency in the adoption of the euro, to create favourable conditions for the Lithuanian population for an adequate and timely preparation for the changeover to the single currency of the European Union. The Bank of Lithuania should take into consideration the experience of the countries of the euro area in adopting the euro and the recommendations of European Union institutions.

2.2. Cash changeover plan

The arrangements for the adoption of the euro are laid down in the National Changeover Plan. The Government of the Republic of Lithuania approved this Plan by its Resolution No. 1050 of 29 September 2005. The Plan singles out a period for preparation to adopt the euro, the dual (litas and euro) circulation period and the period after the dual circulation period.

The aim of the Cash Changeover Plan is to envisage the procedure for cash changeover at the time of the introduction of the euro in the Republic of Lithuania, the key participants in the process of cash changeover and their functions, in order to adequately prepare and ensure a smooth changeover from the national currency, litas to the single currency, euro.

The Cash Changeover Plan has been elaborated according to the competence of the European Central Bank, the EU Council and the national central bank, established in the Treaty establishing the European Community, in the field of the issuance into circulation of euro banknotes and euro coins and having regard to the scenario and key elements for the introduction of the euro in the Republic of Lithuania envisaged in the National Changeover Plan.

The third version of the Cash Changeover Plan had been prepared in close cooperation with the Cash Working Group, which includes the representatives of the Bank of Lithuania, all commercial banks, the Central Credit Union of Lithuania, the Ministry of Finance and the UAB “Falck Security”. This Plan was further coordinated and revised having regard to the proposals from and decisions of the participating institutions.

The key participants in the process of cash changeover are the Bank of Lithuania and commercial banks. The Bank of Lithuania is responsible for the timely provision of euro banknotes and coins. Commercial banks are responsible for sub-frontloading of their customers with euro cash, organization of the distribution of euro banknotes for the general public via the ATMs network, and are involved in the process of cash withdrawal from circulation. The Bank of Lithuania has developed Draft Rules for Euro Frontloading. The Rules establish the main requirements for euro frontloading contracts; define eligibility criteria for the collateral to be provided against the euros being distributed. The European Central Bank issued guidelines for euro frontloading for the new EU member states. Based on these guidelines, Draft Rules for Euro Frontloading and draft contracts for frontloading of commercial banks were worked out and coordinated in the third quarter of 2006.

2.3. The procedure for the adoption of the euro in Lithuania

The National Plan for the Adoption of the Euro denotes the euro adoption (changeover from the litas to the euro) main points and mechanisms guaranteeing consumer protection, a smooth transition to the euro and heightening of public awareness.

No less than **120 calendar days** up to the adoption of the euro, and no less than **120 calendar days** subsequent to the adoption – this is the period during which prices must be displayed in both litas and euro. This is one of the most effective mechanisms to help consumers be aware of prices and thus prevent price gouging because of the euro adoption. Employers, payers of pension and social security benefits will need to provide recipients the possibility to find out their salary, pension, and social security payment amounts in euro for 120 days up to adoption of the euro.

There will be a **15 calendar day** period from adoption of the euro, during which cash litas and euro will circulate simultaneously. One will be able to use euro or litas banknotes or coins. The duration of this dual circulation period was arrived at by taking into account the technical capacity of banks and retailers to get euro cash and to collect litas cash, as well as practical experience of the euro zone countries, along with Lithuania's experience in introducing the litas. Payment will also be able to make wither in euro or litas at automatic payment points during this period. Subsequent to the expiry of the dual circulation period, automatic payment points will transact only in euro.

Commercial banks will exchange litas to euro at no charge for **60 calendar days** after adoption of the euro. The Bank of Lithuania will do so for an unlimited time / 5 /.

2.4. Requirements for adopting the euro / nowadays problem/

The Maastricht Treaty sets the following convergence criteria to EU Member States aiming to adopt the euro are generally known.

The European Commission, having assessed the country's preparation to introduce the euro, has concluded that Lithuania does not meet the Maastricht criteria and is not ready to join the euro area. Such decision was adopted at the meeting of the European Commission on 16 May 2006 in Strasbourg.

“Lithuania satisfies all convergence criteria, except one - inflation. Since April 2005, the average rate of inflation slightly exceeded the established reference value and it might gradually increase by the end of this year,” - commented Joaquin Almunia, the Economic and Monetary Affairs Commissioner. “I want to praise Lithuania for its outstanding economic performance and hope that this country will soon satisfy all conditions of membership in the euro area. The Commission supports the attainment of this goal not only in Lithuania, but also in all Member States of the EU,” - said the Commissioner.

Lithuanian member of the European Commission Dalia Grybauskaite called the timing chosen for Lithuania for introduction of the euro - 2010 - unrealistic. In her opinion, it is necessary to try to control the growth of inflation, to balance ratio of salary and productivity, to control state's expenses and flows of cash in the market. In Grybauskaite's words, the current fiscal and monetary politics is directed to increasing the inflation.

However, President of the European Commission Jose Manuel Barroso mitigates strict statements of European Commissioner Dalia Grybauskaitė on Lithuania's possibilities to introduce the Euro. But he as well emphasizes that Lithuania still needs to pull itself. "We should understand that any critics said by the commissioner (EU Commissioner for Financial Programming and Budget Dalia Grybauskaitė) it is not negative attitude, it is a positive criticism that should be understood as encouragement for Lithuania to further improve the situation. There actually are spheres in which Lithuania could improve something, there is a certain potential to make something better," Barroso told at a press conference. He expressed hope that the government of the country will find ways for solving the problems.

Conclusion

Economic monetary union (EMU) will apparently open new market possibilities for certain arts of business coordination and enterprise, which offer immediately services or products for the transition to the common currency. This is true before all to: software developers, experts in the information technology, legal and economic advisors, economic auditors, producers of various devices and equipment and state authorities. This organisations will have broad possibilities, because the will have to change and adjust their services, final products promptly (like laws, cash registers, software packets) and services (mainly advisory) already for the common currency.

It is obvious, that any organisation should take the introduction of euro as important step in the management of changes and it take it into account seriously. Administration of the organisation must ensure the early start of, keeping the timetable of implementation of changes. The timetable must clearly state, when separate departments of the organisation should begin with preparations – including setting up the strategy of transition, precise time plan and budget and education of people.

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Abstract

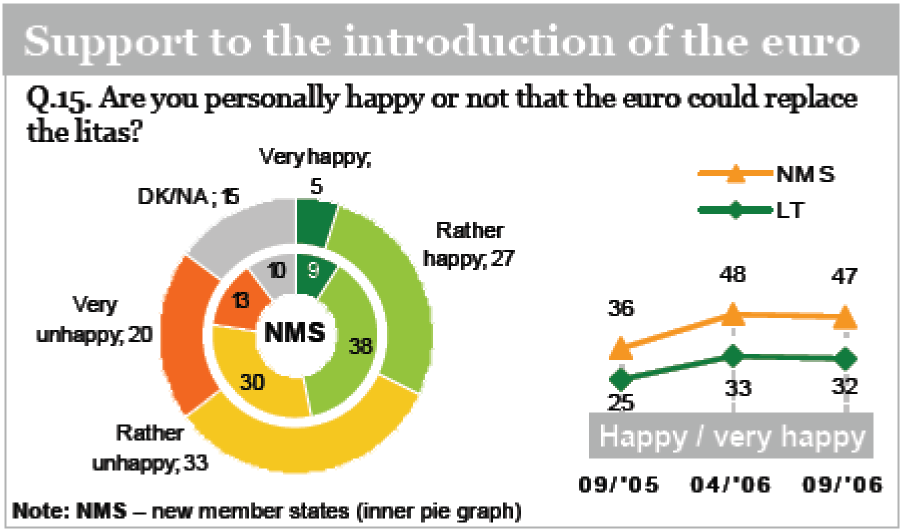
The introduction of the new currency in Lithuania as well as in the other transitions economies will influence all subjects of the society. This will require demanding organizational – technical preparations, which will be reflected in the life of both the society and individuals. Preparations will be accomplished in the public as well as in the private sector and will affect all subjects of the economy that are in their activities using currency in its real and ideal shape.

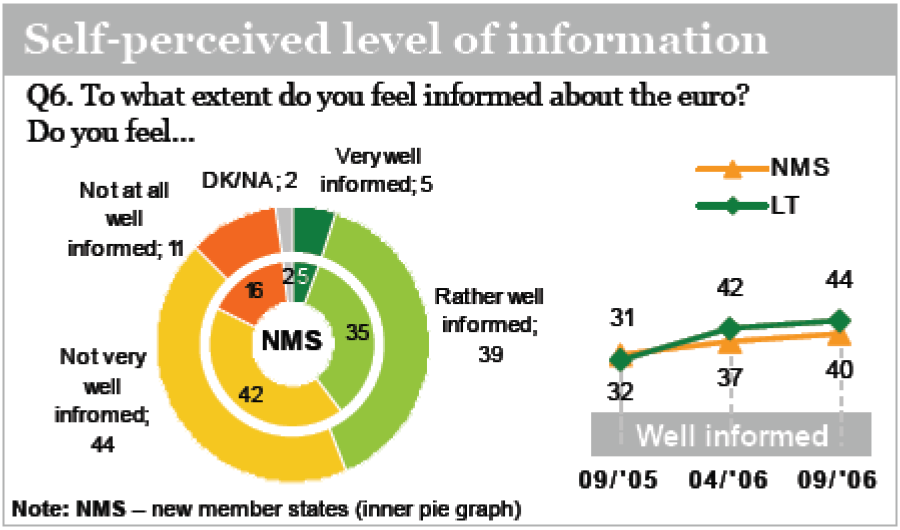
Key words

Adoption of the Euro, timing and proceedings institutional aspects, legal and other problems of introduction.

Enclosure: Public opinion poll in Lithuania

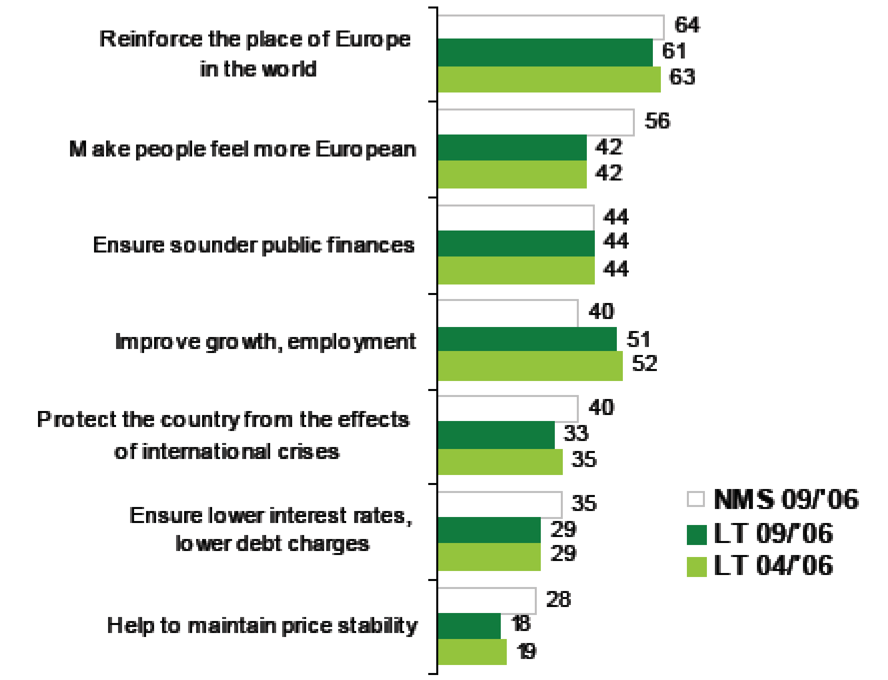
An opinion poll published in January 2007 showed that more Lithuanians opposed Euro adoption than supported it.





Potential socio-economic benefits

The euro will... [various questions combined]



Negative expectations

The euro will... [various questions combined]