

# Euro: introduction and use, legal framework for the enlargement of the euro area

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This report constitutes the Commission's Second report on the practical preparations for the future enlargement of the euro area. It presents the target dates which Member States have set for themselves for the adoption of the euro, the current state of practical preparations at national and Community level, and the state of public opinion in the recently acceded Member States. The report is not linked to the Convergence Reports.

-Twelve of the EU's twenty-five Member States currently form part of the euro area. Denmark and the United Kingdom have a special "opt-out" status. The remaining eleven countries are "Member States with a derogation", and are expected to adopt the euro once the necessary conditions are fulfilled.

-Estonia, Lithuania and Slovenia aspire to adopt the euro on 1 January 2007, less than three years after they joined the European Union on 1 May 2004. All three countries joined ERM-II on 28 June 2004. Cyprus, Latvia and Malta will endeavour to join the euro area one year later, on 1 January 2008. They entered ERM-II on 2 May 2005. Slovakia aims to adopt the euro on 1 January 2009. Practical preparations in all these countries have been initiated. National changeover plans have either been approved or are under preparation.

-The Czech Republic and Hungary aspire to join the euro area in 2010. Poland and Sweden have no target date for the time being.

-If current plans materialise, the euro area will enlarge with nine more countries in four successive steps between 2007 and 2010. Its population will enlarge from 309 million people to 345 million, and its aggregate GDP will increase by around 3.7 %. If all current Member States with a derogation were to be part of the euro area, its population would increase by an additional 47 million people, and its GDP by a further 6.2%.

The report presents the salient features of the existing national strategies and plans.

-All seven Member States aspiring to adopt the euro between 2007 and 2009 have established the institution or changeover board in charge of preparing and co-ordinating the national changeover. Four countries (Estonia, Lithuania, Slovenia and Slovakia) have adopted national changeover plans.

-The situation in Cyprus, Latvia and Malta also causes some concern since preparations are still in a preliminary stage and need to be stepped up. In all three countries, the first version of their changeover plan, normally foreseen before the end of the year, should be adopted as soon as possible in order to provide specific and timely orientations to public and private operators as soon as possible.

-Practical preparations in the Czech Republic, Hungary and Poland are in a very preliminary stage.

-Most changeover plans focus on the cash changeover. Other key aspects (the changeover of public administrations, national legislation, etc.) generally receive much less attention.

The "big bang" approach is the favoured scenario, in combination with a short period of dual circulation. The "big bang" scenario implies that euro banknotes and coins immediately become legal tender upon the country's adoption of the euro. In addition, most countries favour a short period of dual circulation

(usually two weeks). This is consistent with the first-wave experience, where national banknotes and coins were quickly withdrawn, particularly in the countries which were well prepared. After the period of dual circulation, citizens and enterprises can continue for a certain period to exchange their legacy cash at banks without cost. The central bank will in most countries exchange the national currency into euro without any cost or time limit.

The Commission feels that the pace of ongoing preparations will need to be stepped up if the countries want to be ready in time, particularly if the “big bang scenario” is implemented as intended by most Member States, since it does not allow a transitional period for enterprises and public administrations to complete their preparations.

The state of public opinion vis-à-vis the euro in the recently acceded Member States remains unsatisfactory. This constitutes an additional reason for implementing comprehensive communication programmes. The consequences of the introduction of the euro are perceived to be less positive than in 2004. 38% of the citizens believe that the introduction of the euro will have positive consequences (a decline of 6% compared to 2004) at national level, while 46% (+5%) believe that it will have negative consequences. While 40% of respondents felt in 2004 that the consequences would be positive at personal level, that figure diminishes to 36% in 2005. Furthermore, the proportion of those anticipating negative consequences increases from 44% to 49%. The gap between citizens declaring themselves to be happy that the euro will replace their national currency (37%) and those who say that they are unhappy about it (53%) has increased from 5 points in 2004 to 16 points in 2005. Still, in some Member States (Hungary and Slovenia) a majority of citizens is happy with the euro replacing the national currency.