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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**

The introduction of the euro in Lithuania

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1. INTRODUCTION

The Council decided on 23 July 2014 that Lithuania fulfilled the necessary conditions for the adoption of the euro and that its derogation from participating in the single currency was to be abrogated with effect from 1 January 2015¹.

Lithuania followed the practice of all Member States that have adopted the euro after the first changeover wave (1999–2002) and used the so-called "big-bang" changeover scenario, i.e. euro banknotes and coins acquired legal tender status on the day of euro adoption². A two-week dual circulation period, during which both euro and Lithuanian litas banknotes and coins circulated in parallel, allowed for the gradual withdrawal of litas cash. This successful changeover demonstrates again that a short dual circulation period is sufficient if the changeover is well prepared³. A large majority of Lithuanians (86%) perceived the changeover as smooth and efficient⁴.

Following the two reports of the Commission on the practical preparations of the euro changeover in Lithuania⁵, this report covers the most important aspects of the changeover process from an ex post perspective focusing on the preparations for the cash changeover, the dual circulation period, measures taken to prevent abusive price practices and erroneous price perceptions, price trends and perceptions, and communication on the euro. Where relevant, the report also sets out the Commission's recommendations on further possible action to be taken by Lithuanian authorities and draws conclusions which may be of value for future changeovers.

¹ Council Decision 2014/509/EU of 23 July 2014 on the adoption by Lithuania of the euro on 1 January 2015 (OJ L 228, 31.7.2014, p. 29–32).

² The first-wave Member States adopted the euro according to the 'Madrid Scenario', which involved a transitional period of three years (one year for Greece).

³ Latvia, Estonia, Slovakia and Slovenia also had a two-week dual circulation period, whereas in Malta and Cyprus it was one month.

⁴ Flash Eurobarometer 412, field work carried out 16 to 19 January 2015, available at: [http://ec.europa.eu/economy_finance/articles/pdf/fl412_report_final_en.pdf]

⁵ 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 - Fourteenth Report on the practical preparations for the future enlargement of the euro area of 23 July 2014 - COM(2014) 489 final; 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 – Fifteenth Report on the practical preparations for the future enlargement of the euro area of 23 July 2014 - COM(2014) 706 final.

2. THE CHANGEOVER

2.1. Preparations for the cash changeover

The cash changeover constitutes probably the most visible element of the currency switchover since virtually all financial institutions, businesses and citizens are involved. The smoothness and efficiency of this operation depends on a proper supply of euro cash to all parties involved and on banks and businesses being well prepared for the large extra workload.

370 million of euro coins bearing Lithuanian national sides were minted at the Lithuanian Mint following a public tender. Some 132 million euro banknotes of various denominations were borrowed from the Deutsche Bundesbank.

Banks and enterprises were successively provided with euro cash before the end of 2014. Frontloading to credit institutions started on 1 October 2014 for euro coins and on 1 November 2014 for euro banknotes. Regular sub-frontloading to commercial banks' major clients started on 1 December 2014, smaller corporate clients using simplified sub-frontloading were delivered euro cash by the end of December 2014. The total value of frontloaded euro banknotes and coins was EUR 622 million.

900,000 euro coin starter kits containing a mix of all Lithuanian euro coins denominations (value: EUR 11.59 per kit) have been available for sale as of 1 December 2014 via 343 branches of commercial banks, 330 post offices and 3 cash offices of the Bank of Lithuania. Demand for starter kits was high. 640,000 out of 900,000 starter kits were sold by 14 December 2014, as of 1 January 2015 nearly all citizens' starter kits were sold. Furthermore, two different kinds of specific starter kits have been prepared for retailers (60,000 kits containing EUR 111 and 50,000 kits containing EUR 200).

Against the background of the increased security risk, a security action plan was developed providing for measures enhancing the safety of cash transports by the cash-in-transit sector during the changeover process, i.e. a dedicated training provided for police officers. An action plan was set up to address possible bad weather conditions as well.

In particular in the last days of December 2014, commercial banks and post offices had to handle exceptionally high amounts of cash. In order to facilitate the logistics of the withdrawal of litas coins, cash-in-transit companies and commercial banks had been provided with standard mobile containers to be used for coin collecting, storage and transportation.

Some commercial banks reinforced the staff in branches to facilitate handling cash operations and/or established additional counters at the end of 2014 and during the first days after €day. Given that regular opening hours of bank branches in Lithuania are comparably long, it was not envisaged to extend opening hours of all branches during the changeover. Nevertheless, nine commercial banks extended working hours of their customer service units at the end of 2014 and at the beginning of 2015. Commercial banks will provide unlimited cash exchange services free of charge until 30 June 2015 and in some 90 bank branches until the 31 December 2015.

Since late September 2014, the Bank of Lithuania offered special training sessions for cash handlers and accountants on euro cash in general and security features in particular. These training sessions were attended, in particular, by retailers and post-office employees ("train the trainer"). Bank employees received specific training from their employers on the general

principles of the euro introduction and its implications on bank services, as well as on the availability of bank services around €day.

In order to improve the access to cash exchange in particular in rural areas, the Lithuanian Post played an active role in the cash changeover with cash exchange services being offered to the general public in 330 post offices.

According to a Commission survey carried out at the end of December 2014⁶, a large proportion of Lithuanians already possessed euro cash before the changeover: 44% had euro banknotes (56% from a trip abroad, 35% from an exchange in a bank in Lithuania) and 46% had euro coins (62% from a trip abroad and 31% from a starter kit).

The cash changeover in Lithuania was well prepared and organised.

Banks and businesses and citizens were adequately supplied with euro cash in advance of the changeover.

2.2. The dual circulation period

The two-week dual circulation period during which the euro and the Lithuanian litas were circulating in parallel expired on 15 January 2015.

Automatic teller machines (ATMs) were available for withdrawal of euro already on 1 January 2015 and have since been functioning normally. They were loaded with euro cash mainly in the last days of December 2014 and mainly with denominations of 5 and 10 as well as 20 and 50 EUR. Whereas numerous ATMs were functional immediately after midnight, the complete Lithuanian ATM network (around 1200 ATMs) was fully operational on 1 January at 00:26 a.m. Point-of-sale (POS) terminals switched instantaneously to euro on 1 January 2015. Banks' clients have been encouraged to use electronic payments more often, particularly in the first days following 1 January 2015. During the dual circulation period, payment cards were used in 6.7 million transactions with a total value of EUR 127 million. Compared to the same period in January 2014, use of electronic payments has increased by around 5% in January 2015.

Due to careful preparations, banks and post offices coped well with the extra workload during the dual circulation period. Several banks deployed additional staff in branches for cash operations. Cash collection services were proactively provided to retailers and other business clients. Counting and storage facilities in the branches had been adjusted.

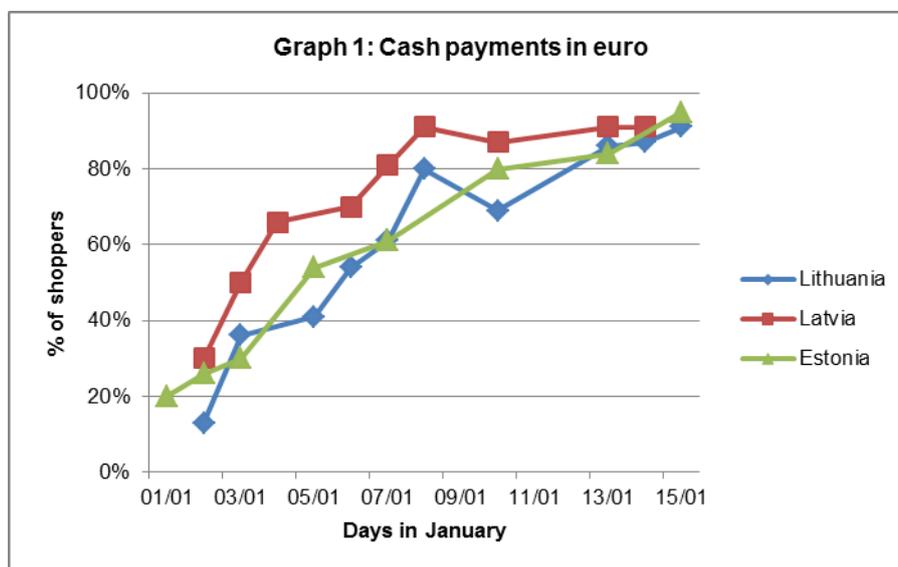
During the first half of January 2015, EUR 314 million were cashed-out at ATMs. Additionally, some banks configured their R-ATMs (ATMs with cash-in/cash-out functions) to collect LTL and cash out EUR during the first weeks of 2015. Over LTL 205 million (EUR 59,3 million) were deposited during first half of January through R-ATMs.

The channels providing exchange from LTL to EUR comprised 343 Bank branches, 330 post offices, 3 divisions of the Bank of Lithuania and 14 branches of credit unions. By 15 January 2015, EUR 419 million have been exchanged in the Banks, EUR 156 million in post offices, EUR 14 million through the Bank of Lithuania and EUR 2 million by credit unions.

⁶ Flash Eurobarometer 409, carried out in Lithuania between 29 and 30 December 2014, p.3.

According to a Commission survey carried out between 16 and 19 January 2015 in Lithuania⁷, 91% of those polled did not experience any problem when exchanging litas cash or withdrawing euro cash with banks in the first week of January. This is slightly more than during the euro changeover in Latvia (88%) and overall in line with previous changeovers⁸.

Graph 1 shows the evolution of cash payments exclusively in euro during the dual circulation period in Lithuania compared with Latvia and Estonia.



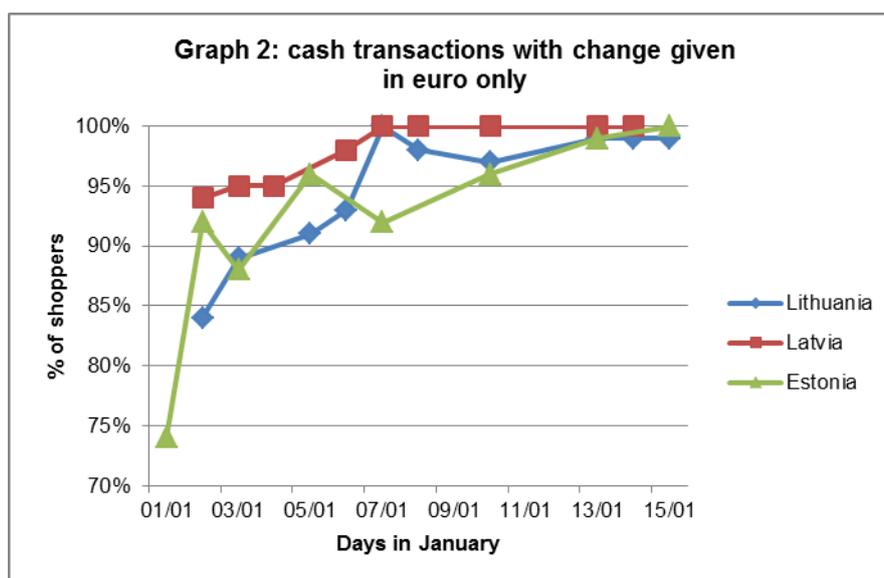
Already on the third day of the changeover (3 January 2015), 36% of the public was performing cash payments with euro cash only⁹. On 8 January, already four of five citizens polled paid in euro cash only. Thereafter, the share of euro cash only payments progressed towards the end of the dual circulation period with the exception of Saturday 10 January 2015 where it decreased from 80% to 69%, but quickly picked up again to 86% on the following day. Overall, the evolution of euro cash only payments was fast but a little bit less steady than during the dual circulation period in Latvia in 2014.

Overall, the retail sector also coped well with the challenges of the changeover process and the handling of two currencies at the same time. Retailers were well supplied with euro cash and no major problems with queues were reported. As can be seen from graph 2, already on 2 January, 84% of citizens received change in euro only. This share increased to 100% on 7 January.

⁷ Flash Eurobarometer 412, see footnote 4.

⁸ The corresponding figures were 95% in Estonia, 90% in Slovakia, 88% in Cyprus, 85% in Malta and 96% in Slovenia.

⁹ Flash Eurobarometer 410, field work carried out 2 to 8 January 2015, available at: http://ec.europa.eu/public_opinion/flash/fl_410_en.pdf



The Commission survey carried out just after the end of the dual circulation period shows that a very large majority of Lithuanians (86%) have perceived the changeover as smooth and efficient¹⁰.

2.3. Withdrawal of the legacy currency

Though litas cash in circulation has been decreasing since the beginning of 2014, the withdrawal of litas cash from circulation has been a particular challenge given that Lithuania is rather a cash-intensive economy.

A significant proportion of the Lithuanian litas cash in circulation was retrieved from circulation already before the changeover. With a view at the quantity and total weight of litas coins in circulation in 2014, Bank of Lithuania was offering unrestricted and free-of-charge exchange of litas coins into litas banknotes until the end of December 2014 to reduce litas coins in circulation. In order to reduce the number of high denomination litas banknotes in circulation towards 1 January 2015, cash-in-transit companies and businesses were encouraged in autumn 2014 to refrain from ordering high denomination banknotes. In parallel, commercial banks stepped up promoting non-cash payments to clients.

By 31 December 2014, the value of litas in circulation had decreased by 51% compared to January 2014. On 31 December 2014 around 5.8 billion litas were still in circulation.

Gradual demonetisation of litas banknotes started already in August 2014 whereas demonetisation of litas coins started in October 2014.

The changeover in Lithuania was well prepared and smoothly implemented.

ATMs and point of sale-terminals were converted in time and banks and post offices coped well with the extra workload during the dual circulation period. Retailers managed well with the challenges of the changeover process and the handling of two currencies at the same time. They were well supplied with euro cash and pursuant to a Commission survey, already on 2 January 2015, 84% of the citizens polled received change in euro only¹¹.

¹⁰ Flash Eurobarometer 412, see footnote 4.

¹¹ Flash Eurobarometer 410, see footnote 9.

3. PREVENTING ABUSIVE PRICE PRACTICES AND ERRONEOUS PRICE PERCEPTIONS

The general public has been concerned about the possible impact on prices of the changeover to the euro. It has, therefore, been particularly important that the Lithuanian authorities take the necessary steps to prevent abusive practices and dispel erroneous perceptions of the evolution of prices.

Since January 2014, prices of 100 frequently purchased products and services in the most popular points of sale in the seven biggest cities of Lithuania have been monitored. Monitored services include those which, based on the experience of previous changeovers, are most likely to be affected by changeover-related increase of prices of smaller proximity businesses (such as hairdressers, restaurants/cafés, car wash).

Compliance with the requirements for price display and conversion (e.g. rounding rules) during the dual display period and implementation of the "Memorandum on Good Business Practice upon the Introduction of the Euro" has been monitored by the Consumer Rights Protection Centre and involves various institutions such as the State Food and Veterinary Service and the State Non-Food Products Inspectorate. Intensive controls had started by the time of the start of the dual display period on 23 August 2014. Following the first dedicated report of the European Commission on Lithuanian practical preparations for introducing the euro, the number of price supervisors involved was significantly increased to more than 350 inspectors.

The compulsory dual display of prices in litas and euro started on 23 August 2014 and will last until mid-2015. Since August 2014, 13,819 controls have been carried out. The CRPC detected violations in 870 cases. The most frequent shortcomings detected were the lack of price indication in two currencies and the incorrect rounding of the prices. The amount of fines imposed ranges from 1 000 LTL (289 EUR) to 10 000 LTL (2896 EUR), depending on the nature of the violation. Sanctions have been applied towards 833 business entities, 819 businesses thereof have been warned, in only 14 cases a fine has been imposed. During January 2015, 1543 inspections have been carried out with 93 violations identified.

Lithuanians generally considered the dual display of prices to be a useful tool to facilitate price comparisons and to get used to thinking in their new currency. According to a Commission survey carried out in January¹², over two-thirds of people in Lithuania (67%) said they find the dual displays of prices useful following the changeover. Over three quarters of Lithuanian citizens (77%) have the impression that the dual displays of prices were implemented correctly or mostly correctly. Lithuania has the lowest proportion of respondents who say that the dual display of prices were implemented correctly or mostly correctly.

When asked about price conversions, nearly half of the respondents (47%) say that price conversions were correct¹³. This result is somewhere in between the results of the previous changeovers.

The "Memorandum on Good Business Practice upon the Introduction of the Euro" campaign was launched on 18 August 2014 and invited businesses to commit not to misuse the changeover for their own profit, respect the changeover rules and provide the necessary assistance to their clients. It follows the lines of the voluntary initiatives employed

¹² Flash Eurobarometer 412, see footnote 4.

¹³ Flash Eurobarometer 412, see footnote 4.

successfully in previous changeovers. The campaign is led by the Ministry of Economy. Subscribers to the campaign are entitled to use a special logo demonstrating their participation. As at 7 January 2015, more than 5.000 companies which sell goods or services to consumers have joined the Memorandum, including 13 639 points of sale. Participants form about 90% of all retailers in Lithuania. The fair pricing campaign is a very important initiative in order to prevent potential price abuses and dispel erroneous price perceptions. Compared with the total number of businesses participating in the initiative in the changeover in Latvia and the experience made in previous changeovers¹⁴, the envisaged aim was successfully achieved.

Since 1 October 2014, consumers have been able to submit complaints on violations of price indication rules via a dedicated hotline, e-mail or by marking the respective point of sale or services on an interactive map provided on the website of consumer associations. Complaints are followed up within a maximum of 48 hours after the complaint has been lodged. Concerns voiced by citizens were mainly related to issues such as the display of prices and the application of the rounding rules. All questions and complaints are being handled diligently by the competent authorities.

However, the impact of the euro on prices and abusive price settings remains a concern for Lithuanian citizens¹⁵. Therefore, it is recommended to continue supervising the dual display of prices, the correct conversion and rounding rules and the evolution of prices in general for a few extra months.

Lithuania has implemented the dual display of prices and a fair pricing initiative in line with the recommendations of the Commission¹⁶.

Participation to the fair pricing initiative has been rather strong in comparison with previous euro changeovers.

4. PRICE TRENDS AND PERCEPTIONS

The euro changeover was preceded by a period of very low, and occasionally negative, inflation in Lithuania. Deflation was driven primarily by the energy component and, to a lesser extent, by non-energy industrial goods. These trends are similar to those observable in the euro area aggregate data and in Lithuania's neighboring countries.

According to a recent Commission survey¹⁷, the majority of Lithuanians (58%) think that the euro will increase inflation in their country (compared to 57% of Latvians and 55% of Estonians, just after their respective changeovers). Around a quarter of respondents (26%) believed that joining the euro area would help Lithuania to maintain price stability. In the two previous euro changeovers, this number was lower (Estonia: 21%, Latvia 19%).

¹⁴ 526 entities were covered by the corresponding scheme in Estonia, some 7,600 businesses in Cyprus, some 7,900 in Malta, some 20,000 sales points in Slovakia and some 11,000 points of sale in Latvia.

¹⁵ Flash Eurobarometer 412, see footnote 4.

¹⁶ Commission Recommendation of 10 January 2008 on measures to facilitate future changeovers to the euro (OJ L 23, 26.1.2008, p. 30).

¹⁷ Flash Eurobarometer 412, see footnote 4.

In line with the established practice following euro adoption in other Member States, Eurostat is planning to prepare an assessment of price developments after the euro changeover in Lithuania, once sufficient data becomes available.

5. COMMUNICATION ON THE EURO

Following the Council Decision of 23 July 2014, the Lithuanian authorities launched the intensive phase of the implementation of the euro changeover related communication activities.

The final version of the "Communication Strategy for the Euro Changeover in Lithuania" which was approved by Resolution No 604 of 24 June 2013 of the Government of the Republic of Lithuania laid down the guidelines for the euro introduction information campaign. Quantitatively, the campaign aimed at ensuring that 80% of residents feel well informed about all practical aspects of the changeover to the euro.

In the framework of a Partnership Agreement and a subsequent grant agreement signed between the Lithuanian Ministry of Finance and the European Commission, the European Commission contributed to the implementation of the communication strategy by financing up to 50% of eligible costs of communication activities. Under the coordination of the Ministry of finance, the communication campaign, involved a mix of communication tools and instruments (direct household mailing, seminars and trainings, social media, TV and print campaign) and targeted various groups (e.g. general public, school children, vulnerable groups, businesses). Complementary communication activities have been undertaken by the Bank of Lithuania, the Ministry of Economy, the State Consumer Right Protection Authority, the Ministry of Education and Science and other public and private institutions.

Regular seminars, workshops and events in the regions took place for businesses, professional cash-handlers and vulnerable groups in order to address the issues of the euro changeover. In order to ensure maximum reach to the Lithuanian population, a Eurobus visited the 60 municipalities until November 2014. Several activities targeted both the visually impaired and the hard of hearing with trainings on the design of the new banknotes and coins, security features and general changeover modalities.

In July 2014, a mass media campaign was launched, which included different TV spots aiming at engaging the public and explaining practical aspects of the euro changeover process. The campaign was complemented by print, radio, online and outdoor media advertising. In the media selection process, special attention was given to reaching vulnerable groups in remote areas, disabled people and national minorities.

A direct mailing, available in Lithuanian, Polish and Russian language, was sent to all households in Lithuania in October 2014 and addressed practical issues of the euro changeover.

The Ministry of Finance and the European Commission also implemented several joint communication activities: Euro festivities and a seminar for Lithuanian journalists in July 2014, a Euro Changeover Conference in September 2014 (together with the European Central Bank and the Bank of Lithuania) as well as various activities for journalists and schools in Lithuania. The Commission also provided the Lithuanian authorities with relevant publications for the general public.

To enhance synergies and maximise the impact of communication campaign activities, the European Central Bank and the Bank of Lithuania launched a common information campaign in November 2014 which used a wide range of tools (TV, print, online and outdoor advertising, as well as other information material) and focused on the visual appearance of euro banknotes and coins, the security features and key facts and dates of the changeover.

The communication and public awareness campaign contributed to a smooth changeover to the euro. The target of 80% of Lithuanian inhabitants feeling sufficiently informed can be judged to have been met with a substantial majority of people in Lithuania (92%) feeling informed about the euro, with 34% of these saying they feel very well informed; just 6% do not feel well informed¹⁸.

Moreover, according to a survey conducted for the Bank of Lithuania¹⁹, nearly 70% of polled Lithuanian citizens state now that they are in favour of the euro adoption in their country while the level of support in April and September 2014 was around 47% (Eurobarometer figures²⁰). In order to further increase this trend, it is recommended to continue appropriate information efforts and monitor public opinion on euro-related aspects.

¹⁸ Flash Eurobarometer 412, see footnote 4.

¹⁹ Survey performed on 19 January–10 February 2015 by the the sociological research company BERENT Research Baltic. Main findings available at:
http://www.lb.lt/public_survey_after_the_euro_adoption_the_populations_support_for_the_single_currency_neared_70_per_cent

²⁰ Flash Eurobarometers 400 and 402.