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**PREPARATION OF THE FINANCIAL AND NON-FINANCIAL SECTOR TO THE EURO ADOPTION**

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Prerequisites of Euro adoption as a common currency for European Union Member States are considered. Attention is focused on the specific character of preparation of financial and non-financial sectors. The necessity of establishing legal transition to new currency through social consensus based on governmental educational activities is grounded.

**Keywords:** financial and non-financial sector, currency, legal regulation, financial services, public opinion.

**Statement of problem.** The international financial crisis is closely linked with the common European currency, i.e. the euro. On the one hand, there are new countries continuously striving to access the Eurozone, which also applies to Poland, and on the other hand, the public financing system collapse in Greece and the hazardous situation observed in Spain, Portugal and Italy clearly threaten the unity of the euro monetary system. Some straightforward comments may even be heard that Greece will withdraw from the system. And the fact that similar opinions are provided by representatives of both the Greek government and other EU Member States only confirms the gravity of the situation.

**Analysis of recent papers.** The idea of introducing a common currency was originated by leaders of the European Union Member States. In the year 1962, a document known as the Marjolin Memorandum was published, substantiating the need for establishing the Committee of Central Bank Governors. At the end of the 1960s, the first arrangements were made in the Hague with regard to the common currency, and its introduction was planned to take place in 1980. The name proposed at that time was ECU, i.e. the European Currency Unit. Due to the oil crisis of the 1970s, these plans were never to be accomplished and hence no ECU banknotes were printed, and the currency itself was officially functioning for a very short period of time and in books of accounts only. The European Economic Community (EEC) leaders gathered in 1988 in Hanover to make a decision on the establishment of the Economic and Monetary Union (EMU). The efforts devoted to

the development of the organisation were divided into three stages. The first one began in 1990 and its outcome was the founding of the Monetary Institute. In the year 1999–2002, the euro was officially functioning beside national currencies to finally become the single legally binding currency in the European countries that had decided to adopt it. In 1999, it became the currency of the highest cash value, i.e. 751 billion. It accounts for 27% of the global currency reserve. It is used by nearly then 550 million people. The euro logotype, i.e. the Greek letter epsilon intersected with two horizontal lines, symbolises the roots of the European civilisation[1].

Euro has all the attributes of currency: it is a measure of value, a legal tender and a means of thesaurisation. Bearing in mind the fact that the value of the given currency depends on the economic standing of the country issuing it, one may claim that the position of euro depends on the economic standing of the EMU countries. The more countries of poorer economic condition in the Union, the worse the position of the legal tender issued under such a framework among other international currencies [2]. Whereas each international currency must be characterised by a suitable degree of the purchasing power stability. Furthermore, the financial market of a country or an area issuing the given currency must be well developed, or in other words, it must feature many financial instruments characterised by a high level of liquidity and safety.

Being a European Union member state does not automatically involve the Eurozone membership. Only having complied with five

precisely defined criteria, a state may apply to join this organisation. They are known as the Maastricht criteria to commemorate the place where they were formulated.

**Aim of the paper.** The aim of the paper is to clarify preparation of the financial and non-financial sector to the euro adoption.

**Materials and methods.**

*Preparation of the financial sector to the euro adoption*

It has been envisaged that the financial sector must become prepared for the euro adoption in four segments. The first one entails adaptation of the services rendered by entities operating in the financial sector to the requirements of non-cash payments. The second one comprises introducing euro into the cash turnover. The third one is related to the information and reporting policy, and the last one comprises supervisory activities[3].

Adaptation of the financial services to the adoption of a new currency involves the following requirements:

- implementation of legal regulations related to rounding of amounts in the financial sector;
- adaptation of systems to the needs of the period of double price exposition;
- converting balances of bank accounts;
- adjustment of interest rates for deposits and credits;
- adaptation of non-cash settlement systems;
- updating values of certificates and units of investment and pension funds,
- currency changeover for insurance policies;
- changing nominal values of debt instruments as well as prices of shares and share capitals of stock listed companies.

As regards the perspective this article is focused on, the adaptation efforts must particularly respect the principle of continuity of contracts. Converting amounts expressed in euros in accordance with the conversion exchange rate envisaged is often connected with the necessity to round the value obtained. The general provisions on rounding of amounts have been provided in Council Regulation no. 1103/97.

The financial sector preparation to the euro adoption should be essentially of a comprehensive nature, reaching far beyond the technical scope of activities involved in intro-

duction of banknotes and coins into turnover.

All changes to the provision of financial services must be made public. In this respect, one may speak of several spheres: currency changeover in bank's tables of fees and commissions as well as information prospectuses of investment funds and open pension funds, developing and disclosing to customers the information on the status of accounts held, notifying customers about practical effects of the currency change to the euro, preparing financial statements to be published in the euro and providing details on the scope of conversion of historical data into the euro [4].

There is also a binding arrangement in force [5], assuming that member states are obliged to notify their citizens in an appropriate manner about the regulations connected with the transition to the euro, the regulations on the security of euro banknotes and coins as well as the protective measures applied in the euro cash. They should also assist the citizens in becoming familiar with the new scale of values. Major credit institutions are obliged to inform their clients about the practical effects of the euro transition. Special importance should be attached to the fact that after the euro adoption date, conducting non-cash payments and having bank accounts will no longer be possible in any of the old national currencies. The institutions operating in the financial sector, rendering financial services to both individual and institutional customers, were also advised to publish the documents related to the euro introduction into the cash and non-cash turnover, which apply directly to individual customers as well as legal entities, on their websites and to display them boards to be found on their premises.

It is obvious that in order for the financial sector institutions to undergo the euro adoption process without too much hassle, appropriate monitoring and control is required. It is said that the most important matter in this respect is the common limitation of the risk related to excessive increment of new loans. The adoption of the common currency is associated with transferring competences in the scope of monetary policy from the national bank to the European Central Bank. Domestic interest rates of the interbank market (i.e. POLONIA and WIBOR for Poland) will be re-

placed with the ECB interest rates (i.e. EONIA and EURIBOR). This will also trigger a change as to the point of reference based on which the credit interest rate is established.

It will become necessary to estimate the impact of the euro adoption on the profits and costs of enterprises operating in the financial sector as well as on the monitoring of the euro introduction by the appointed institutions. According to Commission Recommendation no. 98/288/EC, member states are recommended to establish dedicated bodies and obligate them to monitor the course of the euro introduction process from the perspective of fairness and transparency of the actions being undertaken.

*Preparation of the non-financial sector enterprises to the euro adoption.*

In the preparations to the euro adoption, the non-financial enterprises should be supported by the state administration bodies. This support should assume the form of legal regulations and guidelines being developed as well as information on the required preparatory efforts to be undertaken. The adaptation process itself, when conducted in the non-financial sector, comprises the following segments[6]:

- identification and planning of the necessary preparations in an enterprise,
- adaptation in the scope of enterprise accountancy and finance management,
- adaptation of IT systems and equipment,
- preparation to the euro introduction in the cash turnover,
- conversion of prices and protection of consumers against price excess,
- training and informative activities.

It has been reasonably recognised that the Polish enterprises' transition to the euro should be preceded with an assessment of the impact to be exerted by the Polish zloty conversion into the euro on their operations and defining the scale of necessary adjustments in detail. The activities to be undertaken should make the companies realise the necessity to start the adaptation process as early as possible, and particularly to estimate the currency's impact on the enterprise's own costs as well as those involved in securing funds for the said purpose. It is also highly recommendable to companies to develop a strategy for the euro transition and

define the actions that must be undertaken by employees.

The adaptation in the sphere of accountancy and management of companies involves the necessity of converting all amounts formerly expressed in the national currency into the common legal tender. In order to achieve this goal, threefold actions should be performed. Firstly, defining detailed principles of drawing up financial statements and tax records in the euro. Secondly, defining detailed principles of share capital conversion into the euro. Thirdly, proposing guidelines related to the euro conversion of historical financial data in order to ensure continuity and comparability of information from before and after the common currency adoption.

One may easily imagine that the euro adoption should require adaptation of all information systems related to the national currency. The foregoing also applies to the devices used in commercial transactions. The correlation of IT systems becomes easier when the final legal settlements in fiscal and accounting matters are already known one year in advance at the least.

The preparation to the euro adoption in the sphere of the cash turnover involves the replacement of banknotes and coins. This is believed to be one of the most important tasks, particularly with regard to companies handling high cash turnovers.

Conversion of prices and protection of consumers against price abuse are both connected with setting precise principles of rounding amounts being converted from national currencies into the euro and establishing the characteristics of double price exposition. According to the European Commission's recommendations, the period of double price exposition should start as soon as possible after the ECOFIN Council sets the final and binding national currency to euro exchange rate. The exposition in question should last for at least half a year and no longer than one year. The European Commission also recommends application of other measures, regardless of the double price exposition, in order to protect consumers while the euro is being introduced. Such measures may primarily include specific initiatives under which entrepreneurs would undertake to convert monetary amounts from the

national currency to the euro in a manner neutral to the price level.

In the year 2008, the European Commission recommended business entities to undertake efforts aimed at increasing their employees' awareness on the euro related matters and organise *ad hoc* training sessions for the customer service personnel.

**Conclusions.** What matters to a great extent in the euro adoption process is the communication strategy assumed. In this respect, the Bureau of the Government Plenipotentiary for the Euro Adoption in Poland developed four recommendations [7].

Firstly, due to a relatively low level of the society's familiarity with and support for the common currency, an information campaign pertaining to the euro and its adoption in Poland should commence as soon as possible, and continue for several years. An efficient information campaign should contribute to reassuring the society in the scope of potential price increases resulting from the common currency adoption.

Secondly, the information campaign in question should be of educational rather than persuasive nature. The content delivered under the information campaign as well as its intensity should match the current stage of progress, as one may speak of three stages of the campaign. At stage 1, general information is delivered, including about the origins and relevance of the Economic and Monetary Union and the euro as well as the role of the European Central Bank and the European System of Central Banks. As time passes, the information to be provided should develop from the most general pieces to more and more detailed ones, such as conversion methods or double price exposition. The culminating point of the 2<sup>nd</sup> stage is the period between setting the final conversion rate and the euro introduction date, when the 3<sup>rd</sup> stage begins.

Thirdly, the campaign in question should be characterised by flexibility. Public opinion should be surveyed on a regular basis, and the society's information needs thus determined should be entailed in the campaign revisions.

Fourthly, the European Commission recommends applying communication strate-

gies as soon as possible, even when the country has not yet established a fixed date for the euro adoption. The national communication strategy in the euro introduction process should be formulated in a document jointly developed by the main entities involved in the currency changeover process, particularly the government (usually the Ministry of Finance) and the central bank. The practice has shown that hammering out a common standpoint on the national level is a prerequisite of efficient campaign and proper preparation of the society to the currency changeover process.

Studies conducted at the end of the year 2010 [8] implied a drop in the support for the euro adoption in Poland. Poles are anxious about deterioration of their own financial standing, price increase due to the rounding and rising by sellers as well as growing social inequality. On the other hand, Poles perceive the most significant benefits of adopting the common currency to be the development of the Polish foreign trade, travelling facilitations, ability to buy in other countries and more stable currency.

The government's document of October 2010 concerning the euro adoption provides the following assessment [9]. The balance of estimated effects of Poland's adopting the euro proves that the domestic economy and consumers may count on considerable benefits that will become evident immediately after the EU currency has been introduced. They are estimated to equal from 0.9% to 1.9% of GDP or from 0.3% to 0.9% of private consumption respectively. Efficient, smooth and punctual performance of preparations to the euro introduction is assumed to be supported with an organisational structure led by the Government Plenipotentiary for the Euro Adoption in Poland collaborating with the National Bank of Poland.

The very document referred to above, i.e. the Strategic Framework for the National Euro Adoption Plan, was addressed in an opinion issued by the Coordination Board, an official body established under the Regulation of the Council of Ministers of 3<sup>rd</sup> November 2009 on establishment of the National Coordination Committee for the Euro, the Coordination Board and the Inter-Institutional Work Groups for the Euro Adoption Preparation in Poland

[10].

While evaluating individual financial instruments, the market must entail the fact that Poland will become the Eurozone member in the future, as it has no *opt-out* clause [11]. However, in order to formulate its expectations as regards the euro adoption date (i.e. the euro-day), the market does take the following factors into consideration: government's declarations regarding the rate of integration with the Eurozone, macroeconomic grounds of the economy, reliability of the economic policy and all other valuable pieces of information.

### Literature

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3. Compare: D. Witkowski, «Przygotowanie sektora finansowego do wprowadzenia euro», Bureau of

the Government Plenipotentiary for the Euro Adoption in Poland, European Studies (*Euroopracowania*) no. 2/2010, March 2010, pp. 5 and successive.

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5. Commission Recommendation no. 2008/78/EC.

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У статті розглянуто передумови уведення євро як колективної валюти країн-членів ЄС. Увагу акцентовано на специфіці підготовчої роботи у фінансовому та нефінансовому секторах економіки. Доведено необхідність досягнення легітимності відносно переходу на використання нової валюти через формування суспільного консенсусу на основі просвітницької та освітньої діяльності спеціально створених урядових установ.

**Ключові слова.** фінансові та нефінансові сектори економіки, валюта, правове регулювання, фінансові послуги, інститут суспільної думки, інформаційна компанія.

В статье рассмотрены предпосылки введения евро как коллективной валюты стран-членов ЕС. Внимание акцентировано на специфике подготовительной работы в финансовом и нефинансовом секторах экономики. Доказано необходимость достижения легитимности относительно перехода к использованию новой валюты через формирование общественного консенсуса на основе просветительской и образовательной деятельности специально созданных правительственных учреждений.

**Ключевые слова.** финансовые и нефинансовые секторы экономики, валюта, правовое регулирование, финансовые услуги, институт общественного мнения, информационная компания.

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