



Government Plenipotentiary for Euro Adoption in Poland

Strategic Guidelines for National Euro Changeover Plan

EXECUTIVE SUMMARY

Warsaw, October 2010

1. Adopting the euro and benefiting from full membership of the Economic and Monetary Union is among top priorities of the Polish government's economic policy. The government aims at achieving this goal as soon as possible, however taking into account the necessary conditions of a secure euro area membership, as specified in the document *Prerequisites for Implementation of the Next Stages of the Road Map for Euro Adoption in Poland*. The government's determination to achieve this goal results from the expected substantial economic benefits of the euro area membership. These include a reduction in transaction costs in international trade, elimination of the PLN/EUR exchange rate risk, a drop in market interest rates and increased stability and credibility of the government's macroeconomic policy. There are also significant political benefits that cannot be measured directly but should nevertheless be taken into account, such as participation in the decision process by the European Central Bank and the activities of the Eurogroup. These benefits, accumulated over time, will stimulate trade between Poland and the rest of the world, increase investments, substantially reduce debt servicing costs, thus generating public finance savings, and strengthen Poland's competitive position. As a result, euro adoption should ensure solid foundations for sustainable economic development as well as an increase in consumption and welfare. However, the final long-term effects of euro adoption will be largely determined by Poland's economic policy.
2. Euro adoption involves also certain costs. In the short run they result from the organisational and technical adjustments, such as adaptation of IT systems, acquisition and distribution of euro banknotes and coins, and information activities. The changeover also involves the risk of temporary atypical price developments. Moreover, the nominal convergence of the Polish economy towards the euro area induced by lower interest rates may result in a credit boom. Long-term costs, on the other hand, involve abandoning of the independent monetary policy, including using the nominal exchange rate as a tool to ease macroeconomic shocks. The scale of these costs depends, however, on the extent of similarity between the Polish economy and the euro area (real convergence) as well as the flexibility of the Polish economy.
3. The cost - benefit analysis of euro adoption indicates that the Polish economy and Polish consumers should expect immediate substantial benefits from currency changeover. Estimates range between 0.9% of GDP (the pessimistic scenario) and 1.9% of GDP (the optimistic scenario) or – in other terms – 0.3% and 0.9% of private consumption. The long-term net benefits are estimated at 2.5%-7.5% of GDP (0.9%-3.6% of private consumption). The cost-benefit analysis clearly shows that the benefits dominate over the costs of euro adoption, both in the short and long term.
4. The final effects of euro adoption and how fast they materialise will depend on Poland's preparation for the changeover. Developing policy measures towards maximization of benefits and opportunities while minimising costs and threats is the task of the organisational structure, appointed by the Polish government on 3rd November 2009. The solutions include in particular actions preventing an excessive credit growth and unjustified price increases, raising

flexibility of the Polish economy, improving the institutional setting for businesses and ensuring appropriate organisational and technical preparations for the changeover process.

5. The organisational structure is also responsible for monitoring the extent of and the prospects for fulfilling the Maastricht criteria on price and exchange-rate stability, as well as fiscal, long-term interest rates and legal convergence. Sustainable fulfilment of these criteria, which is a formal condition for accepting a Member State with a derogation into the euro area, is regularly assessed by the European Commission and the European Central Bank in Convergence Reports.
6. The Ecofin Council decides on abrogating the derogation based on the Convergence Reports' assessment and taking into account the opinion of the European Parliament and the European Council, as well as a recommendation of the Eurogroup. As a consequence of the convergence criteria requirements and the formal procedures, there is approximately a 3-year time span between joining the ERM II and the euro adoption. This period can be longer, however, should the Eurogroup issue its recommendation no sooner than after 6 months, the maximum possible period.
7. The fulfilment of the exchange-rate criterion requires at least two-year membership in the ERM II, during which the exchange rate shall remain close to the central parity or on its strong side without severe tensions or devaluation against the euro on the country's own initiative. For this reason, the most vital tasks for the fulfilment of the exchange-rate criterion include: choosing the right moment for the accession to the ERM II, setting the central parity at the optimal level and monitoring whether it remains in line with the economic situation and, if required, taking necessary steps to restore stability in the FX market. Moreover, the exchange-rate criterion may only be met if the candidate country has the ability to fulfil all the remaining convergence criteria. Therefore, the ERM II accession should only take place when within two years there is a high probability of a sustainable fulfilment of the remaining Maastricht criteria and meeting all the formal conditions of euro area membership.
8. Integration with the euro area involves not only fulfilment of the convergence criteria and strengthening the flexibility of the economy but also complex adjustments in areas such as public administration, financial and non-financial sectors. Euro adoption in Poland will be a major large-scale organisational challenge that requires every institution, organisation, business entity and every citizen to take action and prepare accordingly.
9. Completion of these preparation processes will require comprehensive legal adjustments associated with the currency changeover. Moreover, to limit the inconvenience and costs to the citizens, proper actions aimed at protecting consumer rights during the changeover process should be taken. In addition, a large-scale information campaign should take place in order to facilitate the citizens' changeover preparations. The most time-consuming and at the same time the most vital tasks in the process include: cash changeover, adaptation of IT and

equipment used for cash and non-cash transactions (e.g. cash registers, vending machines, POS terminals), conversion of monetary amounts (e.g. prices, salaries, bank deposits) from the zloty to the euro, and historical data conversion. Completion of these tasks will require an engagement of the public administration, the National Bank of Poland, businesses and all citizens.

10. The sort and intensity of preparatory actions will vary depending on the stage of the changeover process. Certain preparations depend on the euro adoption date, while others can, and should, start immediately. Early planning and commencement of preparations will reduce the risk of any delays in the process, and as a result, will prevent disturbances in the daily activities within public institutions, businesses and other organisations.
11. To facilitate effective, smooth and timely preparations, Polish government has appointed an organisational structure, chaired by the Government Plenipotentiary for euro adoption in Poland and co-chaired by the Plenipotentiary of the National Bank of Poland's Management Board. The organisational structure comprises the National Coordination Committee for Euro Changeover, the Coordinating Council, eight Working Committees and Task Groups. The main responsibility of these entities is to cooperate with the Government Plenipotentiary in order to support his tasks of planning and coordinating changeover preparations in Poland. Moreover, within the Ministry of Finance, the Bureau of Government Plenipotentiary for Euro Adoption in Poland has been set up. Its task is to prepare analyses related to the euro adoption in Poland as well as to provide organisational and secretarial support to the Plenipotentiary.
12. The first stage of the preparations for the currency changeover, currently carried out by the organisational structure in Poland, is analytical. It aims at defining the scope of necessary adjustments for the euro adoption, and in particular assessing its impact on the public administration, the financial and non-financial sectors and citizens' everyday lives. During this stage the required legal adjustments will be identified and the framework for the information campaign will be provided. Furthermore, the conditions and prerequisites for the fulfilment of individual preparatory tasks will be specified. An important factor influencing further actions within the euro changeover preparations are decisions taken by the Polish government and the National Bank of Poland with respect to the changeover scenario, duration of the dual circulation and dual price display periods and, most importantly, the final euro adoption date.
13. The first stage of the euro changeover preparations determines actions which will be taken in further stages. A detailed schedule will be provided in the *National Euro Changeover Plan (NECP)* – a document that will summarise the analytical stage of the currency changeover preparations in Poland. NECP will be a joint publication of the Polish government, the National Bank of Poland and other institutions involved in the organisational structure for the euro adoption in Poland. It will have been prepared by the end of September 2011.