

OF THE CENTRAL BANK'S ROLE IN THE INTRODUCTION OF A NEW CURRENCY CASE ANALYSIS ON THE INTRODUCTION OF THE EURO IN LITHUANIA

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Abstract: the article deals with analysis of the role of the Central Bank of Lithuania in the introduction of the Euro in Lithuania. The execution of functions of the Bank of Lithuania, informing the public, cash changeover, provision of the Euro banknotes, and financial stability protection processes are subject to analytical assessment.

Keywords: Central Bank of Lithuania, financial stability, systematic risk, macro –prudential policy, surveillance mechanism, the Euro, SEPA.

The introduction of the Euro is considered one of the largest currency reforms and an important phase of the European Union (hereinafter – EU) development. Since January 1, 2015 the Republic of Lithuania is becoming the 19th member of the Euro Zone, which uses the single EU currency – the Euro – and has a single monetary policy. The European Central Bank and the national central banks of the European Union member states that introduced the Euro make up the Euro system. The Central Bank of Lithuania (hereinafter – LB) is an integral part of the European System of Central Banks that pursues objectives of the European System of Central Banks and carries out tasks in accordance with guidelines and instructions of the European Central Bank.

The objective of this paper is to analyse and assess the role of LB in the introduction of the Euro.

Six working groups were formed to coordinate the actions regarding the introduction of the Euro in Lithuania. LB supervises three national working groups [4, p. 20]: The Working Group on Public Information, which is responsible for informing the public on the single EU currency, its impact on the country's economics and its inhabitants and preparing the Republic of Lithuania for the Euro adoption; the Cash Working Group, which is responsible for the emission of cash Euro banknotes and coins in Lithuania, coordination of the withdrawal of LTL banknotes and coins from circulation and observing the compliance of Lithuania with the convergence criteria of the Surveillance Working Group, which observes and assesses whether Lithuania is in compliance with the convergence criteria. The Chairman of the Board of LB is a member of the Coordination Commission for the Adoption of the Euro in the Republic of Lithuania along with Prime Minister and the Minister of Finance.

In order to assess the condition of economic convergence of the EU countries seeking to adopt the Euro, ECB uses a common analysis system – checks the changes in prices, fiscal balance and the debt ratios, the currency exchange rate and long –term interest rates as well as other actions regarding convergence. Key objectives of the Surveillance Working Group Observing the Compliance of Lithuania with the Convergence Criteria of the Euro Introduction are these: to analyse the compliance of economic and financial indicators of Lithuania with convergence criteria, to prepare the compliance assessment on a quarterly basis and to provide it to the Coordination Commission for the Adoption of the Euro in the Republic of Lithuania and the Working Group Coordinating the Euro Introduction Processes. The Bank of Lithuania and other institutions concerned are implementing various measures for reducing the financial sector risks.

To ensure that the introduction of the Euro would not become an unexpected occurrence for the inhabitants of the Republic of Lithuania it is important to regularly inform the public on the decisions made. The institutions concerned about informing the public should establish favourable conditions for the introduction of the Euro, to create a positive attitude of the public towards the transition to the single EU currency. The main dissemination spreaders of information on the integration of Lithuania into the European Monetary Union are commercial banks, educational institutions, supermarkets, large companies, the Police Station, Post Office, etc. Considering the intensity of the dissemination of information there are forecasted 3 phases regarding the implementation of the public information strategies. The first phase is increasing financial and economic literacy of the public. In this phase LB cooperation with the European Commission and ECB helps to distribute publications in Lithuanian and other foreign languages on the economic and monetary union, the single European Union currency and security features of banknotes, to prepare educational programmes, to carry out researches that raise

public awareness and provide their results to the Working Group on Public Information and the members of the Coordination Commission for the Introduction of the Euro in the Republic of Lithuania. On July 22, 2014 after the EU adopted the resolution on the introduction of the Euro in the Republic of Lithuania, the second phase of informing the public started and it will continue until the date of the Euro adoption. During the second phase LB is carrying out an intensive dissemination of information on the Euro introduction campaign. Inhabitants are introduced to the Euro introduction procedures, the denominations of the Euro currency and value and to the security features of the Euro. The public is also introduced to the national Euro coins of all the Euro –Zone countries, since after the introduction of the Euro the coins of other Euro – Zone countries will enter into circulation. In the third phase – the period from the date of the Euro adoption up to one year after the introduction of the Euro, the public will be regularly informed about the changeover points, security features of banknotes and coins and researches aimed at analysing a new currency will be carried out.

LB prepared the Cash Changeover Guidelines that specify the cash changeover process participants and their functions and the principals regarding the supply of the Euro banknotes and coins, Euro and LTL handling and the principles regarding cash changeover for the total period of the Euro and LTL turnover and after its completion [1, p.1]. LB banks and Central Post Offices of Lithuania are the main cash changeover process participants. The Board of LB when carrying out the Cash Working Group plan approved the need for the Euro banknotes and coins – 132 million units of the Euro banknotes and 370 million units of the Euro and the Euro coins. LB signed an agreement with the Central Bank Bundesbank of Germany on the acquisition of all denominations of the Euro banknotes. The agreement specifies the Euro banknotes delivery time and shipping conditions that are in compliance with the safety and security assurance requirements; the debt in notes for the borrowed Euro banknotes will be repaid in 2016 [3, p.1]. The Board of LB approved the description of the Advanced Distribution of the Euro Banknotes and Coins of the Primary and Secondary Phase according to which LB and commercial banks shall sign the Euro distribution agreement granting them the right to carry out the advanced primary distribution of the Euro. Commercial banks shall provide adequate collateral for the advanced distribution of the Euro banknotes and coins: funds in bank accounts of the Bank of Lithuania, debt securities or term deposits in the Bank of Lithuania. The chosen flexible advanced distribution conception will allow banks to get sufficient cash in the Euro at a convenient time and if necessary, to adjust to needs and to provide maximum disposition of the collateral. During the payment for the received Euro commercial banks will be subject to the deferred debit payment model, that is, prior issued the Euro will be considered "as an interest free loan for the collateral". This advantage shall be invalid in case the banks pledge LB cash deposits. LB shall pay fixed interest for pledged deposits. It's forecasted that since December 1, 2014 until the date of the Euro introduction commercial banks and CIT companies authorized by banks shall begin the secondary distribution of the Euro. During this period the banks shall provide a new currency to retail and service companies, Central Post Office of Lithuania and credit unions that exchange LTL to the Euro and other subjects [1, p.5]. The key element of cash changeover is withdrawal of cash LTL banknotes and coins from the market and their destruction. The Cash Working Group made up schemes and prepared the plan on the storage and destruction of cash LTL banknotes and coins. The key function of LB is to prepare the coin destruction device and to begin the coin destruction procedures in accordance with legal acts, regulating the coin destruction.

In 2014 LB became an institution responsible for shaping and carrying out the macro –prudence policy in Lithuania. The objective of the macro –prudence policy – to contribute to the protection of the financial system stability, including the strengthening of the financial system resilience and the systemic risk reduction. With regard to these powers, the requirements of the capital adequacy shall comply with the requirements of the Directive; LB is entitled to apply macro –prudence measures in the Republic of Lithuania, for example, to determine the capital protection and countercyclical capital reserves [5, p.4]. LB and commercial banks of Lithuania within one year of the Euro adoption must prepare the customer payments under the requirements of SEPA regulations (the Single Euro Payments Area) [2, p.24]. Securities settlement practice and applicable standards of the country shall be aligned to the ones existing in Europe, when implementing the project of the single securities settlement platform TARGET 2 – Securities. This platform shall allow carrying out domestic and international payments for securities in the Euro. The activity of the Bank of Lithuania shall be oriented toward the joint financial market infrastructure surveillance seeking to ensure its reliable and efficient operation. Processes of the financial market infrastructure foster surveillance institutions to effectively cooperate with each other. LB actively participates in the surveillance of European systems that carry out payments in Euros, which is important

to Lithuania. In 2014 preliminary works were started due to joining the Single Supervisory Mechanism and important agreements were made on key elements of the Banking Union. The Single Supervisory Mechanism, the countries of the Bank Recovery and Resolution and the Single Resolution Mechanism [2, p.43]. When becoming a member of the Euro –Zone Lithuania becomes part of the Banking Union, therefore, the most important regulatory changes of the financial sector shall affect the stability of the financial system of Lithuania. The European Central Bank (ECB) shall take over the surveillance of there major banks of Lithuania – AB SEB bankas, AB "Swedbank" and AB DNB. LB will carry out the surveillance of other financial institutions and, if necessary, ECB shall be entitled to overtake the control of these institutions. The strengthened surveillance of banks shall facilitate the implementation of the problem banks restructuring. Application of rules regarding restructuring of uniform banks of the EU countries shall allow to faster adopting the decisions on the bank restructuring. Since 2015 national restructuring funds, which shall finance the bank restructuring costs, will be started to accumulate.

Conclusions:

1. Since January 1, 2015 the Republic of Lithuania is becoming the 19th member of the Euro Zone, which uses the single European Union currency – the Euro – and has a single monetary policy. Considering the intensity of the dissemination of information there are forecasted 3 phases regarding the implementation of public information strategies. The role of LB in the first phase was to properly and fully inform the public of the country on the single EU currency. During the second phase LB is carrying out an intensive dissemination of information on the Euro introduction campaign. The public is introduced to the Euro introduction procedures, the denominations of the Euro currency and the value, the security features of the Euro and the national Euro coins of the total Euro – Zone countries. In the third phase the objective of LB – to inform the inhabitants of Lithuania on the LTL changeover points, to inform the public on the security features of banknotes and coins and to carry out researches seeking to analyse a new currency. The Bank of Lithuania publishes the information about the introduction of the Euro and legal acts on its website.

2. LB prepared the Cash Exchange Guidelines that specify the cash changeover process participants and their functions and the principals regarding the supply of the Euro banknotes and coins, Euro and LTL handling, cash changeover for the total period of the Euro and LTL turnover and after its completion [3, p.1]. LB guarantees that the Republic of Lithuania will be timely supplied with the Euro banknotes and coins.

3. Key objectives of the Surveillance Working Group Observing the Compliance of Lithuania with the Convergence Criteria of the Euro Introduction are these: to analyse the compliance of economic and financial indicators of Lithuania with convergence criteria, to prepare the compliance assessment on a quarterly basis and to provide it to the Coordination Commission for the Adoption of the Euro in the Republic of Lithuania and the Working Group Coordinating the Euro Introduction Processes.

4. In 2014 LB became an institution responsible for shaping and carrying out the macro –prudence policy in Lithuania. The objective of the macro –prudence policy – to contribute to the protection of the financial system stability, including the strengthening of the financial system resilience and the systemic risk reduction. Considering these powers, the Capital adequacy requirement shall be in compliance with the Directive's requirements; LB has the right to apply macro – prudence measures in the Republic of Lithuania.

5. The activity of the Bank of Lithuania shall be oriented toward the joint financial market infrastructure surveillance seeking to ensure its reliable and efficient operation. The strengthened surveillance of banks shall facilitate the implementation of the problem banks restructuring. Application of rules regarding restructuring of uniform banks of the EU countries shall allow to faster adopting decisions on the bank restructuring.

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