

BACKGROUND AND INTRODUCTION

Government policy on membership of the single currency

The Government's policy on membership of the single currency remains as set out by the Chancellor in his October 1997 statement to the House of Commons, and restated by the Prime Minister in February 1999. In principle, the Government is in favour of UK membership of Economic and Monetary Union (EMU); in practice, the economic conditions must be right. The UK would be ready to make a smooth changeover should Government, Parliament, and the people, in a referendum, decide to join EMU.

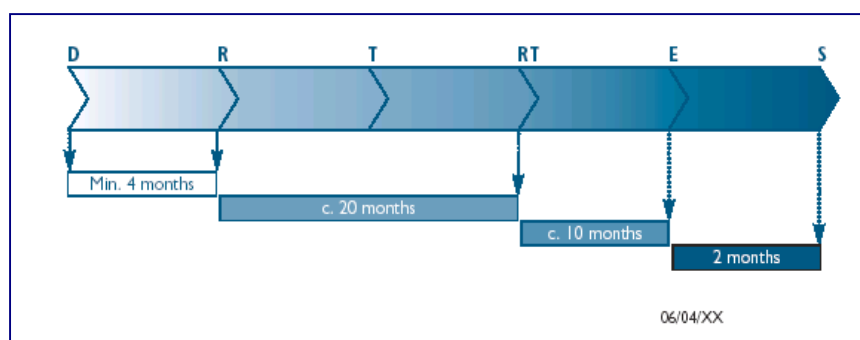
An assessment of the five economic tests was published in June 2003. This concluded that, "since 1997, the UK has made real progress towards meeting the five economic tests. But, on balance, though the potential benefits of increased investment, trade, a boost to financial services, growth and jobs are clear, we cannot at this point in time conclude that there is sustainable and durable convergence or sufficient flexibility to cope with any potential difficulties within the euro area."

The Chancellor's 9 June 2003 statement to the House of Commons on UK membership of the European single currency set out a reform agenda of concrete and practical steps to address the policy requirements identified by the assessment. A report on progress was presented in Budget 2004. While the Government did not propose a euro assessment be initiated at the time of Budget 2004, the Treasury will again review progress at Budget time next year.

As part of the policy of "prepare and decide", the Government is committed to ensuring that the UK retains a genuine option to join the single currency if that is what the Government, Parliament and the people, in a referendum, decide. The Euro Preparations Unit in the Treasury (EPU) works with stakeholders from across the economy to ensure that euro preparations are at an appropriate level.

Lessons from the euro area and the complexity of the UK economy suggest that a phased approach would deliver the best changeover for the UK. The Government's preference, therefore, is for a 'Managed Transition', where euro services would be introduced in stages. Details of this were included in the *third outline National Changeover Plan* published on 9 June 2003.

Chart 1: Outline changeover timetable



Key abbreviations

| | |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| D : Decision | The Government's decision to join EMU membership |
| R : Referendum | UK electorate vote on joining EMU. |
| T : Transition | Time of entry and start of transition. UK joins EMU. The euro-sterling exchange rate would be irrevocably fixed. |
| RT: Retail Transition | Beginning of Retail Transition. Euro denominated retail financial services would start to be available from this point. |
| E : E day | Euro cash becomes legal tender. UK euro notes and coins would be introduced. All non-cash transactions would be denominated in euro. |
| S : End of dual | Sterling ceases to be legal tender. End of two-month dual circulation period. |

MANAGED TRANSITION PLAN:

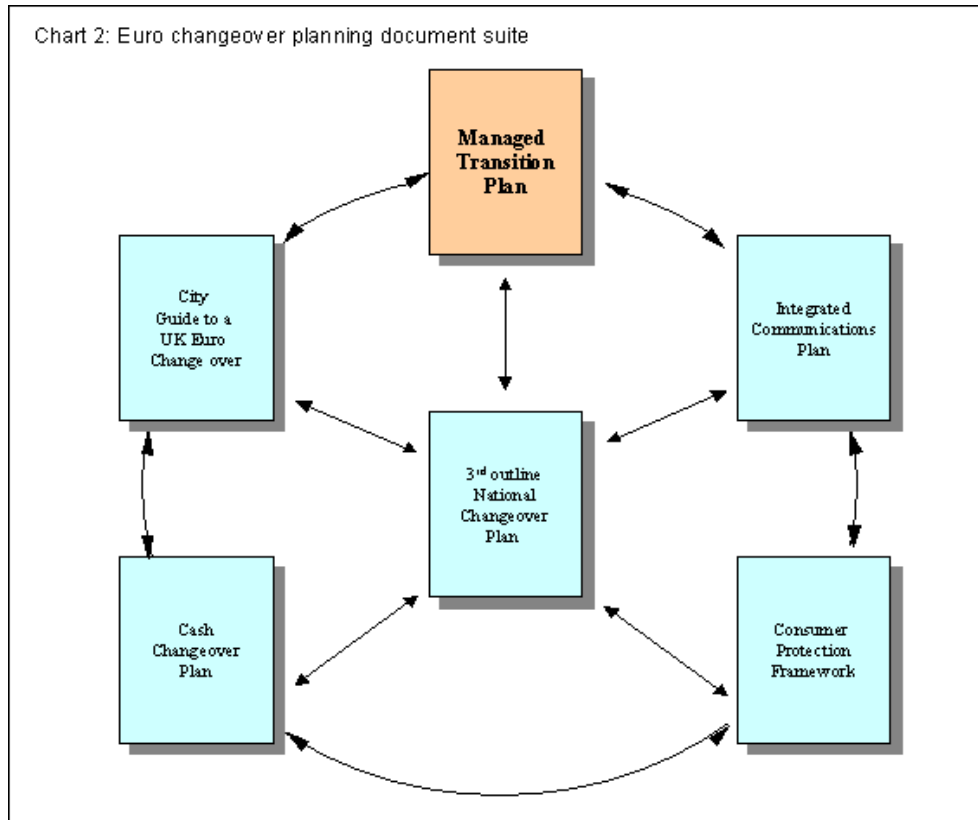
Implementing a UK changeover: who would do what, when

The *third outline National Changeover Plan* contains a draft Managed Transition Plan. This sets out information for all sectors of the economy on what euro denominated services would be available in the event of a UK euro changeover, when they would be available, and who would provide them. Its purpose is to give planners within organisations and businesses a framework for planning each stage of a migration from sterling to euro. It is designed for organisations across the economy to follow a clear progression, and identifies areas for action during each stage of the outline timetable.

Since June 2003 there has been consultation on this plan. Through workshops, bilateral meetings and the submission of written contributions, representatives of the public, private and voluntary sectors have helped develop this enhanced working draft version of the plan.

COMPANION DOCUMENTS

In line with the *third outline National Changeover Plan*, the Treasury is developing a series of complementary documents which will form an overall framework for a possible UK euro changeover. As a result the Managed Transition Plan does not provide detailed information on plans for communication, consumer protection, a cash changeover or a wholesale financial market changeover in any possible future changeover. This information is provided through other planning documents, details of which are given below.



Integrated Communication Plan

Whilst the Managed Transition Plan touches on some communication issues, the Euro Preparations Unit is working with stakeholders to produce a separate, detailed communication plan that sets out how key organisations and sectors would communicate with citizens and consumers in the event of a changeover. The communication plan is at an earlier stage of development than the Managed Transition Plan. The communication plan will follow the stages of a migration from sterling to euro given in the *third outline National Changeover Plan* and will integrate with the actions listed in the Managed Transition Plan. It will also include high level details of the central communication that would be delivered by a Government Euro Changeover Secretariat during a transition.

Consumer Protection Framework

Consumer protection is at the heart of UK Government's changeover planning. A draft Consumer Protection Framework has been developed for initial consultation. It considers how existing consumer protection mechanisms would protect consumers in the event of a UK euro changeover and what additional mechanisms might be required.

Cash Changeover Plan

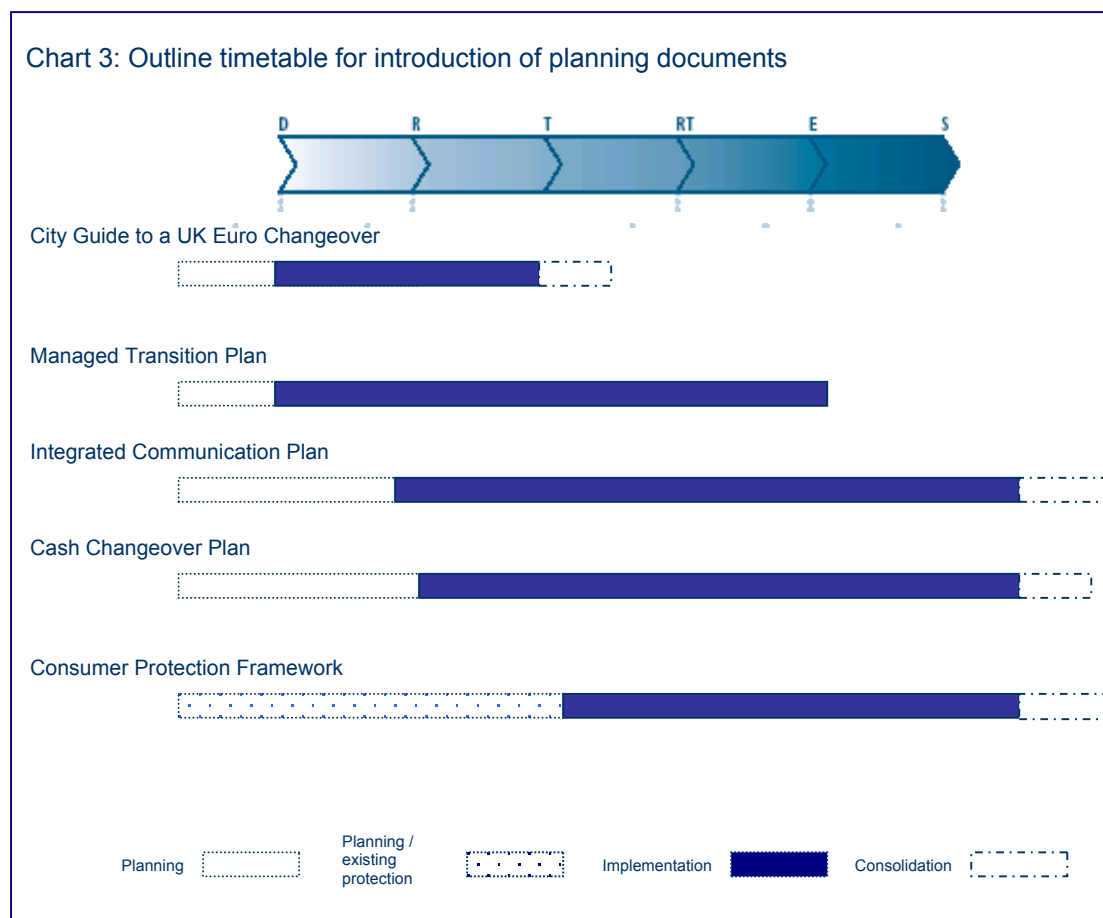
As described in the *third outline National Changeover Plan*, after a positive referendum decision to join EMU, the Government would establish a Cash Changeover Working Group to manage a cash changeover. This would include representatives of those organisations involved in cash production, storage and distribution. This group would produce a cash changeover plan within six months of a referendum.

City Guide to a UK Euro Changeover

It is beyond the scope of the Managed Transition Plan to give details of how a changeover of the sterling wholesale financial markets would be implemented. The Bank of England coordinates euro preparations in sterling wholesale financial markets through the City Euro Group, a representative body of City market associations and financial institutions. In order to help market practitioners prepare for a changeover in sterling wholesale financial markets, the Bank of England has published a 'City Guide to a UK Euro Changeover'. The City Guide sets out how, in the event of UK entry, the changeover would be expected to be handled, and is kept up to date on the Bank of England website¹.

¹ See www.bankofengland.co.uk.

The outline timetable of when these documents would be introduced is set out in Chart 3 below.



STRUCTURE OF MANAGED TRANSITION PLAN

The Managed Transition Plan summarises the actions required in a UK euro changeover. The plan is broken down into sections, corresponding to the stages of the outline timetable, Chart 1. Each section begins by setting out the core messages that would apply to all sectors and organisations at that stage of transition. Below these core messages the proposed detailed actions are arranged within broad sectoral categories, namely;

1. Central Government Departments;
2. Local Government;
3. Financial Services;
4. Non-financial services;
5. Business advisers/support services; and
6. Voluntary sector.

Many actions within the Managed Transition Plan are dependent on other organisations and sectors completing or coordinated their actions. Whilst the exact details of the interdependencies are not given, where significant interdependencies are known “linked” organisations are listed against the actions.

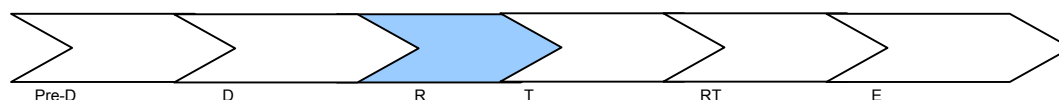
The plan includes a further column that indicates outputs such as publications and highlights significant impacts on consumers and the business community, for example changes in payment facilities and services.

Navigation within the Managed Transition Plan

To ease use of the Managed Transition Plan the sections are colour-coded as follows:

| Period | Colour Code |
|---------|-------------|
| Pre-D | Yellow |
| D to R | Orange |
| R to T | Blue |
| T to RT | Turquoise |
| RT to E | Green |

The section within each stage can also be identified by the outline changeover timetable bar at the top of the page. The section bar that corresponds to the contents of a particular page is shaded. For example, this bar can be found at the top of the pages for period R-T of the outline changeover timetable.



Acknowledgements

This working draft of the Managed Transition Plan has been prepared in conjunction with a broad range of stakeholders from the public, private and voluntary sectors, coordinated under the umbrella of the Managed Transition Advisory Group. HM Treasury and the British Bankers' Association jointly chair this group. HM Treasury would like to thank the contributors for their support in the development of this planning document.