

## PRACTICAL ASPECTS OF THE EURO INTRODUCTION

**Summary:** The euro reflects the determination of the people of Europe to share a future together. The cash changeover to the euro on January 1<sup>st</sup> 2002 will be an unprecedented logistical and strategic challenge. Several matters are particularly important for the success of the operation, namely the problems of distributing euro banknotes and coins, the complexity of handling two currencies at the same time, and the concerns being voiced by consumers at possible price rises at the very moment of the switchover to the euro. According to the latest survey, generally speaking, large firms are well prepared, but SMEs are still a cause of concern. Public administrations have completed or are at the final stages of completing the legal and operational arrangements for the changeover. By contrast, the state of readiness of local authorities seems, on the whole, to be still unsatisfactory. The frontloading of euro banknotes to the general public before January 1<sup>st</sup> has been ruled out, as it might cause confusion. However, the frontloading of coins only will occur as from the second half of December 2001. The degree to which individuals are informed has improved considerably, but there are still gaps in the public's knowledge about the details of the operation. It must be particularly pointed out that fears of abuses and cheating on prices are worrying the consumers, and that this index of discomfort continues to rise. The private sector in the euro area, and particularly credit institutions, will have to bear entirely the huge changeover costs, with no compensation being envisaged by public authorities. This applies not only to the costs directly related to the physical cash changeover itself, but also to many other internal and external adjustments that will have to be made. In the new euro environment, implementation of the FS Action Plan should complete and refine the regulatory framework to create a true pan-European financial market.

### Towards a European identity

European monetary union was the logical step after the creation of the single market. While the single market has fostered real macroeconomic integration, the introduction of the euro is currently acting as a powerful force to unify financial markets. Traditionally, the situation in Europe has contrasted sharply with the highly integrated financial markets of the United States and Japan. This is now changing as the European financial system is experiencing significant structural changes. In that respect, it is worth mentioning the rapid development of the euro-denominated corporate bond market, the clear acceleration in the pace of consolidation of the banking sector - albeit still generally within national boundaries - and the proposed links and alliances among national stock exchanges.

Politically, monetary unification requires participating Member States to co-ordinate the conduct of their economic policies. Even though the euro is already a monetary and accounting currency since January 1999, for the public in Europe the euro will become a visible reality in everyday life only once notes and coins are in circulation and they will replace national currencies in the euro area in January 2002.

The euro symbolizes a goal of economic integration. But it also demonstrates that Europeans can come together with enthusiasm and firm resolve in support of an ambitious common project.

### **A huge logistical undertaking**

As a result of all the efforts currently deployed by the European Central Bank, the European Commission, and national authorities of Member States, we must be confident that the introduction of euro banknotes and coins will proceed as smoothly and successfully as the non-cash changeover to the euro on January 1999.

However, the cash changeover is a huge logistical undertaking that requires particular efforts by all those concerned, not only banks and retailers, but also commercial organizations and government bodies as well as the public in general. Some 15 billion euro banknotes and 50 billion euro coins are set to replace in a matter of weeks a roughly equivalent quantity of national notes and coins.

The European Commission has taken actions to foster a smooth transition to the euro. It plays a major role in coordinating the effort of Member States and the eurosystem, monitoring progress, stimulating preparation, and in identifying and spreading best practices. Since 1995 the Commission has proposed or adopted a series of texts on the euro, including 6 Regulations, 4 Communications and 5 Recommendations, and shortly a new Communication containing a comprehensive stocktaking of preparation is anticipated.

As the deadline approaches, the questions raised by the physical introduction of the euro become more specific and technical and cover matters as varied as cash storage and transport, cash management, the policy on euro pricing, and security and communication issues. Several of these matters are particularly important for the success of the operation. Namely the logistical problems facing retailers, the complexity of handling two currencies at the same time, and the concerns being voiced by consumers at possible price rises at the very moment of the switchover to the euro. Concerning this last point, clear rules exist for the conversion of prices into euro but it is possible that producers and retailers will round up their prices. In order to preserve consumers' confidence on the new currency, public authorities and consumers associations must be on their guard to prevent the spread of such practices.

On the issue of frontloading euro banknotes to the general public before January 1<sup>st</sup>, it was decided that the disadvantages of doing so outweigh any possible advantages. In particular, frontloading might cause confusion among the general public, as it would not be possible to prevent people from using them prior to January 1<sup>st</sup>. By contrast, the frontloading of coins only, which will occur as from the second half of December 2001, would seem to entail limited risk given the low values of coins and their general use as change. Furthermore, it must be remarked that it is easier to distribute euro banknotes massively at the beginning of January than to distribute coins. Most notes will be distributed through ATMs and they will exceptionally be equipped with smaller denominations of notes in early 2002.

### **Where we stand**

All participating countries adopted their national changeover plans several months ago. Frontloading actions have already started in some euro area countries. Kits of euro coins will be made available in mid December. The adaptation of cash dispensers, which provide on average 70 % of the public's supply of banknotes, will allow a quick transition in most participating

countries. Between 85 % and 100 % of ATM's will distribute euro from January 1<sup>st</sup> in 10 out of 12 members States.

The production of euro banknotes and coins is on schedule. By the end of August more than 11 billion euro banknotes and 44.6 billion euro coins had been produced, quantities that already cover the requirements for the launch on January 1<sup>st</sup> 2002. In particular, sufficient quantities of small denomination notes should be available in cash dispensers or across the counter from the early days of 2002; 5 or 10 euro banknotes will be available in most machines in virtually all participating member States.

Banks, retailers, and the cash operated industry in the euro area will receive euro banknotes and coins as from September 1<sup>st</sup> 2001, according to national plans. By December 31<sup>st</sup> 2001, all bank accounts will be converted to euro automatically and free of charge. As from January 1<sup>st</sup> 2002 it will be possible to use euro banknotes and coins for payments, having legal tender status all over the euro area. As from the same date, the use of euro banknotes and coins will be increasing rapidly, and national banknotes and coins will be withdrawn and not re-issued for circulation. Exchange of national banknotes for euro will take place at credit institutions, national Central Banks or dedicated exchange points.

According to the latest survey, generally speaking, large firms are well prepared, but small and medium sized enterprises, and in particular micro-enterprises, are still a cause of concern. One SME in 4 in the euro area claims to be ready for the euro. This is clearly not enough given the limited time still available. There is still a core of about one business in 5 in the euro area that has not realized that January 1<sup>st</sup> 2002 is the deadline for operating completely in euros. Furthermore, 60 % of SMEs have not assessed the budgetary cost of the changeover nor evaluated the training requirements.

At the other extreme, public administrations have completed or are at the final stages of completing the legal and operational arrangements for the changeover. Some have taken a proactive approach designed to have a knock-on effect on the economy as a whole, by switching over to the euro public procurement or even civil servants' salaries. By contrast, the state of readiness of local authorities seems, on the whole, to be unsatisfactory in the euro area. The changeover plans of most large local authorities are well advanced, but for smaller authorities the situation is less positive.

### **Fears of the public**

The euro changeover will affect the daily life of a large number of citizens in Europe. The European Commission, the European Central Bank, and national governments are currently making a special effort to inform citizens on the relevant aspects of the changeover. The degree to which individuals are informed has improved considerably. On average, right now 73 % of individuals are aware that January 1<sup>st</sup> is the date on which euro notes and coins will be introduced. And a little more than 1 in 2 individuals know the precise conversion rate.

These findings are encouraging, but there are still gaps in the public's knowledge about the details of the operation. For instance, 20 % of the individuals still don't know that notes and coins issued in their country may be used in the other countries of the euro area, and so have not really grasped the concept of a single currency. The knowledge of the dual circulation period is

slightly better albeit not always accurate, as people are very vague in most countries about the length of the dual period and the date of withdrawal of the national currency.

According to the last survey, the public seems to think that the euro will not cause any particular inconvenience or advantages and remains rather cool. However, the index on fears of abuses and cheating on prices continues to rise. Almost everyone expects to see pricing increases or unfavourable application of the conversion rates, including in the countries in which there was greater confidence about this aspect in previous years. These fears are mainly directed at small traders, and concern over other economic players is far less.

### **Changeover costs**

One important issue relates to who bears the changeover costs. A number of demands have been made for compensation of costs related to the changeover (transport, security, vending...), but any compensation has been ruled out, as for the time being Member States have made clear that no compensation should be envisaged.

Therefore, the private sector in the EU, and particularly credit institutions, will have to fund those costs. For instance the changeover of their customers' accounts, the replacement of cheque books in national currency units by euro cheque books, the adaptation of ATMs to the new euro banknotes, the supply of information to broad groups of clients, and a long list of all sorts of internal and external adjustments.

According to the "Second Survey of the Policy Adopted by Banks in Preparing for the Transition to the Euro" (September 2001), among 34 large European banks accounting for a large share of the market, some 83 % of the banks questioned will not charge handling fees for the return of national banknotes by retailers in 2002, and nearly 76 % do not intend to charge handling fees for the return of coins, despite the difficulties involved (counting, storage...). This high score bears witness to the goodwill shown by banks, which are waiving their usual charging rules.

### **Final remark**

In the new euro environment, implementation of the Financial Services Action Plan should complete and refine the regulatory framework for a true pan-European financial market, as was made the key political priority at the Lisbon Council. However, as the pace of financial integration grows and the process is increasingly market-driven, regulation will need to become more flexible and capable of speedy amendment.

## References

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 Federation of European Securities Exchanges  
 Rue du Lombard 41  
 B – 1000 Brussels  
 Tel: 0032 2 551 01 80  
 Fax: 0032 2 512 49 05  
 E-mail: arlman@fese.be

### Secretary

John Houston  
 Houston Consulting Europe  
 Av. de la Joyeuse Entrée 1-5  
 B – 1040 Brussels  
 Tel: 0032 2 504 80 40  
 Fax: 0032 2 504 80 50  
 E-mail: info@houston-consulting.com

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