

## Christian Noyer: Where are we 11 months before E-day?

Speech delivered by Christian Noyer, Vice-President of the European Central Bank, on the occasion of the Forum "Tremplin pour l'euro" in Courchevel, France, on 2 February 2001

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Ladies and gentlemen,

Just over two years ago, the European Union adopted its own single currency. Less than 11 months from today, we will be paying with euro banknotes and coins in our everyday transactions. By many measures, this development could justifiably be considered an achievement of historic proportions. With the arrival of euro banknotes and coins, the process of introducing a single European currency initiated in Maastricht in 1991 will finally be complete.

Today, the minds of European central bankers, the banking community and many other interested parties are certainly focused on the immense organisational and logistical task entailed by the cash changeover. Allow me nevertheless to briefly reflect on some of the developments that the euro has already triggered.

First of all, the irrevocable fixing of exchange rates between the participating currencies and the introduction of the euro on 1 January 1999 can rightly be considered as the "crowning" of the Single Market. The euro is indeed "One money for one market", as the studies supporting the original Delors Report succinctly put it. The euro has undoubtedly become an important catalyst in promoting the further integration of product and capital markets of euro area economies. More importantly, the policy-makers in the Member States have realised that being part of a monetary union will not only produce substantial economic benefits. It also imposes certain constraints on their own policies. Rigidities in labour and product markets, inappropriate fiscal policies and fragmented regulatory frameworks all have a negative impact on the economic conditions, proper functioning and growth potential of the euro area as a whole. Tackling these challenges has become a clear political priority over the last few years. The ECB's success in maintaining price stability has certainly provided - and continues to provide - a crucial foundation for these efforts, by stabilising inflation expectations and instilling a "stability consensus" across Europe. In this sense, the euro is one factor which is continuing to push euro area economies towards more balanced budgets and greater competitiveness.

Another important aspect of the transformation of the European economy that has been stimulated by the advent of the single currency is the increasing financial integration within the euro area. Indeed, from the start, the prospect of deeper, wider and more integrated financial markets was among the most widely expected benefits of a common currency. This expectation is now being fulfilled, in some areas even more rapidly than initially anticipated. The euro-denominated commercial bond market, for example, has facilitated transactions of a size not witnessed in Europe before. The availability of financing in a larger and deeper market should help increase the competitiveness of the European economy.

This said, integration has proceeded at different speeds in the various segments of the financial markets. From the ECB's point of view, we have noted with satisfaction that the money market in the euro area is now fully integrated. However, in other market segments, such as equity or securities markets, fragmentation of the legal framework and the lack of a truly pan-European perspective still hamper much-needed consolidation. It is encouraging to see that these deficiencies are being addressed as a matter of urgency. Efforts to harmonise national regulations and practices will help to cut costs and bring financial market conditions in Europe more closely into line with those prevailing in the United States.

It is unfortunate that these positive influences of the euro have gone largely unnoticed by the general public. Rather, it is the value of the euro on the foreign exchange market that has become the focus of most media attention. The true, and altogether tangible, success of the euro - namely price stability throughout the euro area - has tended to be overlooked by many European citizens. Instead, while the euro has largely been associated with the depreciation of its exchange rate, they have attributed the stable internal value of their currency to the inherent "quality" of the Deutsche Mark, French franc or guilder, which are still used for everyday transactions.

This, I am confident, is set to change with the introduction of our new currency in the form of banknotes and coins. The actual cash changeover is - as I am sure I do not need to tell you - an enormous challenge, not least because it needs to be accompanied by a generalised switchover to the euro as a unit of account.

The success of this changeover will depend on all the actors involved. This not only includes the ECB and national central banks, but also national administrations and the banking community. Moreover, the retail sector, the vending industry and the cash-in-transit companies, to mention just a few, have important roles to play. Given the complexity of the task and the number of players involved, a centralised organisation of preparations would not have been feasible and was therefore ruled out from the start. Rather, it was deemed appropriate to devolve responsibility for the organisation of the various contributions. This decentralised approach certainly has its advantages. It allows, within the agreed overall framework, for tailor-made solutions specific to each national environment. At the same time, it makes a clear assignment of responsibilities particularly crucial.

I will not go into detail as concerns the changeover to the euro as a unit of account, because the responsibility for this clearly lies with the governments. But this does represent a large task since it concerns all public and private legal acts, administrations, companies and households.

Much responsibility therefore rests with the national administrations of the Member States. They have to create the conditions by, amongst other things, adapting relevant legislation and administrative procedures so that, in all respects, businesses, consumers and the public at large are ready and able to change over to the euro, including as regards the use of the new banknotes and coins. The European Commission and the Eurogroup are monitoring the state of these preparations. Nonetheless, the responsibility for implementation rests clearly with the Member States, which have set up comprehensive national changeover plans. I might also mention that Member States' governments are also responsible for the minting of some 50 billion euro coins.

For its part, the Eurosystem has the task of producing the 14.5 billion euro banknotes and making them available to the banking sector. In addition to this, although not directly responsible, the ECB naturally attaches great importance to a smooth and well-prepared changeover in every aspect. To this end, the ECB and the national central banks of the euro area have endorsed a number of general principles, concerning, for example, the frontloading and sub-frontloading of the euro banknotes and coins.

Given the devolution of responsibilities for the cash changeover, such general principles are important to ensure a level playing-field and to avoid competitive distortions. Also important is the common schedule for the changeover. This sets specific dates for the various stages of the process, which need to be respected by all concerned. There are, of course, three important dates which I would like to briefly recall:

- The first of these is 1 September this year, the date on which each national central bank may begin "frontloading" euro banknotes and coins to credit institutions and other target groups. However, this period can be shortened at the national level and may differ between target groups and between banknotes and coins.
- Then comes "E-day" - 1 January 2002 - the day on which the euro becomes legal tender and euro banknotes and coins will be made widely available to the general public.
- Finally, there is the end of the dual circulation period, when national banknotes and coins will cease to be legal tender. This date varies from one Member State to another. From 1 March 2002 onwards, however, the euro will be the sole legal tender in all euro area Member States. The cash changeover will then be complete. In most Member States, it is expected that the bulk of the cash changeover will take place in just one or two weeks.

Ladies and gentlemen, I have talked so far about the responsibilities of the Eurosystem and the national administrations. But you and I know that the banking community also bears a tremendous responsibility for ensuring a smooth cash changeover. Supplying the new euro banknotes in time to cash dispensers, storing and transporting large quantities of cash in a safe manner and sub-frontloading the euro banknotes and coins to retailers also imply considerable efforts by the banking community. Banks will also play a crucial role in informing and advising their customers, and in particular small businesses, about the measures that they need to take as a consequence of the changeover to the euro in cash form and as a unit of account. May I say, I very much appreciate the efforts of the banking community, already undertaken and forthcoming, during this challenging period.

I also trust in your understanding of the historic dimension of this operation. The long-term benefits of the euro far outweigh the one-off burden of the changeover.

The successful completion of the process outlined thus far will be a major operation for banks, retailers, administrations and other parties involved. However, we should not forget that it also implies a significant change for the 300 million European citizens who will, thereafter, use the euro banknotes and coins for their daily transactions. By then they must, for obvious reasons, be aware of their new currency's visual appearance and its security features.

To this end, the ECB and the national central banks, as well as the governments of the euro area Member States and the European institutions, have embarked on major information campaigns. The ECB and the 12 national central banks of the euro area alone have earmarked EUR 80 million for their "Euro 2002 Information Campaign". This Campaign focuses on four main themes: the visual appearance of the banknotes, their security features, their denominations and the common changeover modalities. It is designed to complement the other information campaigns on the euro, particularly those run by the national authorities in each euro area country. Naturally, and as I mentioned earlier, we are also relying on the efforts of the banking community in this regard. At the end of the day, no television advertisement or billboard can replace the direct and immediate advice which competent bank employees can give to their customers.

Ladies and gentlemen, roughly a year from now, we shall finally be using the new euro banknotes and coins and our national currencies will no longer be in circulation. However, even then, the euro area will still not completely function as a truly unified currency zone. As I mentioned earlier, euro area financial markets are not yet fully integrated. I would also like to draw your attention to another area, which directly concerns the banking community, and where the potential benefits of the euro have yet to be fully exploited. I am referring to the price differential that continues to exist between cross-border retail payments within the euro area and those within individual Member States. Like the cash changeover, this is another area where the banking community has a crucial role to play in securing the full benefits of the common currency. I appreciate that this also represents a substantial task. However, once European businesses and citizens are using the euro for their everyday transactions, the provision of low-cost, efficient cross-border retail payment services will undoubtedly become a clear policy priority.

Finally, returning to the title of my speech "Where are we 11 months before E-day?", I would say that so far we are well on track. Even before the introduction of euro banknotes and coins, the euro has already delivered much of what was expected. We regard these achievements with some satisfaction. Nonetheless, this does not mean that we are complacent. The enormous challenge of the cash changeover still has to be met and, despite all past and ongoing work, a lot remains to be done. Even after the changeover, the ECB does not anticipate settling down to "business as usual" anytime soon. Our objective is to make the euro a lasting success. I am confident that - by also building on our good working relations with the banking community - we shall continue to succeed in this endeavour.

Thank you ladies and gentlemen.