

Lucas Papademos: The completion of the changeover to the euro

Speech by Mr Lucas Papademos, Governor of the Bank of Greece, at the Euro Information Conference, Athens, 17 October 2001.

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I would like to welcome you to the third session of the Euro Information Conference. Your presence here attests to the importance you attach to the successful changeover to the euro, our new currency, our money. It is a particularly great pleasure for me to welcome the Minister of National Economy and Finance, Mr Yannis Papantoniou, and the President of the European Central Bank, Dr Willem Duisenberg, to whom I express my warmest thanks for their participation. I would also like to thank the other distinguished speakers and colleagues who participated in the first two sessions of the Conference.

I

We have now reached the last lap in what has been a long and arduous journey culminating in the introduction of the single European currency. About 75 days from today, the euro banknotes and coins will be put into circulation and the withdrawal of the national currencies of the 12 euro area countries will begin. The euro will thus become a visible and tangible reality for some 300 million European citizens and numerous other economic agents worldwide.

In the current juncture of increased uncertainty about international developments and economic prospects, the interest of the public in the introduction of euro banknotes and coins may reasonably have been reduced. This does not mean, however, that the completion of the changeover to the euro does not constitute a high priority for us all. And it is of particular importance, especially in a period of uncertainty, to prepare ourselves in time and adequately, so that the changeover to the single currency is smooth and successful.

Creating Monetary Union in Europe and introducing the euro has indeed been a long, complex and unprecedented process. This vision first took shape over 35 years ago. The official political decision and commitment of the EU Member States came nearly ten years ago, with the signing of the Maastricht Treaty on 7th February 1992. A long period of extensive preparations followed to ensure that the appropriate economic and monetary conditions were established and to complete the necessary institutional and technical adjustments for the establishment of Economic and Monetary Union in Europe. The euro came into being as a currency in scriptural form in eleven EU countries on 1st January 1999. After joining EMU, Greece also adopted the euro as its currency on 1st January 2001.

The introduction of the euro in scriptural form was a particularly difficult venture, but it was also a significant step towards the creation of the European monetary union and the implementation of the single monetary policy. The venture was difficult as it required many and complex institutional, technical and operational adjustments of central banks, credit institutions and financial markets. It was, however, a significant step, as in this way the money market was integrated and the monetary regime in 11 EU countries was radically and irrevocably changed. Equally difficult from a technical point of view and important for the economy and the conduct of monetary policy was the adoption of the euro as Greece's currency in January 2001.

Consequently, the euro is already with us and is actually the single currency adopted by 12 EU countries. This reality, however, is not sufficiently visible to the general public, which uses national banknotes and coins in its day-to-day transactions. That is why many people consider the euro a "virtual" currency. Moreover, since the euro does not exist in physical form, many firms and organisations have not fully adjusted their accounting and IT systems to the single currency. With the circulation of euro banknotes and coins on 1 January 2002, the changeover to the single currency will be completed and it will become a visible, tangible and irreversible reality. The last stage of the transition will produce further specific benefits for consumers and firms. It will also favourably affect the international acceptance and external value of the euro. At the same time, I believe that it will enhance and speed up the overall process of European cooperation and unification.

II

Completion of the changeover to the euro with the entry into circulation of euro banknotes and coins and the withdrawal of national currencies is also a complex undertaking, possibly more difficult than the introduction of the euro in scriptural form. It requires a wide range of preparatory work by the monetary and economic authorities and credit institutions in general. This work involves not only the production and distribution of euro banknotes and coins but also institutional and operational adjustments in the public sector. At the same time, however, this venture calls for the preparation and adjustment of those who will actually use the single currency: citizens, firms, organisations and other economic agents. The successful completion of the changeover to the euro thus calls for concerted efforts, preparations and cooperation between all parties involved, at both the European and the national level. I would first like to briefly reflect on the role of the Bank of Greece in this process. I will then focus on some of the challenges that we will be facing, but also on the benefits that will arise from the completion of the changeover to the euro.

The Bank of Greece is responsible for the production of the euro banknotes and coins to meet cash requirements on Greek territory. In cooperation with the commercial banks, the Bank of Greece will also be responsible for the withdrawal of the drachma banknotes and coins. This is an enormous task not only because of the large volume of drachma banknotes and coins that have to be exchanged, but also because in the case of Greece only one year will have elapsed between the adoption of the euro in scriptural form and the actual circulation of the new currency in physical form, compared with three years in all the other euro area countries. It is estimated that some 650 million drachma-denominated banknotes and 7,000 tonnes of drachma coins, of a total value of 3 trillion drachmas, will have to be withdrawn in Greece. Owing to the shorter time available for production, some of the needs inevitably had to be met by importing banknotes and coins from printing works abroad. Most of the production needs have nevertheless been met by the Bank of Greece Printing Works in compliance with the common standards for the production of high-quality currency incorporating a large number of security features. To ensure the sufficiency of stocks in the event of extraordinary needs, we have taken steps to have a total of 617 million euro banknotes and 1,600 million euro coins (or 8,300 tonnes of euro coins) ready for circulation.

In the case of Greece, the volume of banknotes and coins in circulation is relatively large in comparison with the size of its economy and with many other euro area countries, because cash is widely used in transactions. This is reflected in the ratio of currency in circulation over GDP, which amounts to 6.4% compared with 5.4% in the euro area on average. This percentage may seem quite high, but is not very far from the respective percentages of some other euro area countries such as Germany (6.2%) or Italy (6%), and is well below that of Spain (9%). Moreover, Greece does not lack alternative savings instruments; indeed, the share of currency in circulation in the broader monetary aggregate M3 is small (6%) and smaller than the euro area average (6.9%). Against this background, it is fair to assume that established behavioural patterns, saving patterns in particular, should not pose any particular constraints on the substitution of the euro for the drachma - at least no more than elsewhere in the euro area. On the other hand, the geography of the Greek territory does make the frontloading of euro cash to banks and the public more difficult.

The Bank of Greece now has the required stock of euro banknotes and coins and is presently frontloading to banks according to schedule. Sufficient amounts of euro cash have already been delivered to the 27 branches of the Bank of Greece across the country. Another part of the euro stocks will be supplied to commercial banks through 96 branches of the National Bank of Greece, with which the Bank of Greece holds cash surpluses from funds under its management. Frontloading is at present free of charge. The counterpart of frontloaded euro banknotes and coins will be debited to banks gradually in the course of January 2002, so as to help them deal with the costs of frontloading and supplying. Let me add that the Bank of Greece is in a position to meet part of the demand for euro banknotes in neighbouring Balkan countries and, in cooperation with the respective central banks, is planning the frontloading of euro banknotes in the region. It is estimated that the public in these countries are currently holding significant amounts of legacy currencies, predominantly German marks worth at least 6 billion marks, which will have to be exchanged for euro.

Until the end of the year and while the central bank will be frontloading euro banknotes and coins to banks, the latter will assume the task of supplying the economy with the new currency: they will be sub-frontloading euro coins (as from 1 November 2001) and euro banknotes of lower denominations (5 and 10 euro) to retailers (as from 1 December). Starting from 17 December 2001, the public at large will be supplied with 13 million starter kits, containing euro coins of all denominations. Meanwhile, banks are completing the adjustment of their information systems and the technical preparations that

will enable ATMs to dispense euro cash as from 1 January 2002. From mid-January 2002 onwards all ATMs of banks will operate in euro only. What we have heard so far during the first two sessions of this Conference confirms that the Greek banking system is in an advanced state of preparedness for the changeover. I believe that, with close cooperation between the Bank of Greece, commercial banks and the Hellenic Bank Association, the necessary preparations will have been accomplished by the end of the year and that the banking system, on its part, will have established the proper conditions for a seamless transition to the euro.

III

As already mentioned, however, a successful transition also hinges on the preparation of the public at large, retailers and other economic agents. These have therefore to be familiar with the euro banknotes and coins and with the overall changeover process. The 2002 Information Campaign, prepared and conducted by the European Central Bank and the national central banks of the euro area, is targeted at citizens and business firms of the euro area and beyond and its objective is to raise awareness of the euro banknotes and coins, by providing comprehensive practical information. The campaign involves various actions, as the President of the ECB Mr Duisenberg will later explain in greater detail. Still, I would like to make two points. First, that the campaign relies heavily on the participation of public and private organisations and enterprises which have become "europartners" and act as "information multipliers". Today's Conference, which has been organised in the context of the 2002 Information Campaign, brings together more than 100 europartners. We are looking forward to having a closer cooperation with them over the next weeks. Second, as you may have already noticed, the first TV commercials and advertisements in the press are here, as part of the 2002 Information Campaign which will gradually gain momentum and will culminate around the turn of the year, with the distribution of information leaflets.

Furthermore, the Bank of Greece has scheduled additional information briefings and events intended to complement the joint European campaign. Such briefings and events include:

- additional TV spots concerning the introduction of the euro in physical form and the adjustment to the new monetary environment;
- the production and distribution of a board game called "Euroraces" intended to familiarise children and their parents with the new currency, as well as of a comic book entitled "Eurocles" for older children;
- public expositions of 100 works of art in the shape of enlarged euro coins, made of polyester and painted by children from all the euro area countries;
- the production of 1 million "euro converter cards", with information on the banknotes' security features;
- additional information conferences on the euro throughout Greece with the participation of Bank of Greece officials.

I believe that the joint Eurosystem Information Campaign, the complementary information events scheduled by the Bank of Greece, as well as the programme jointly organised by the Ministry of National Economy and the European Commission will, by the end of the year, succeed in addressing the awareness gap which continues to exist with regard to the completion of the changeover to the euro.

IV

A general conclusion that can be drawn from the previous sessions of this Conference is that the necessary technical preparations and operational adjustments for the introduction of the euro are progressing satisfactorily in the banking and the business sector. This, combined with the anticipated improvement in public awareness, seems to indicate that the transition to the euro will be a smooth one. This encouraging conclusion does not leave room for complacency, nor does it mean that the changeover does not entail costs for the preparation and adjustment to the new monetary environment. Adjustment costs are to some extent inevitable owing to the nature and the scale of the task. However, we must strive to minimise these costs, through adequate and systematic preparation and information. At the same time, we must bear in mind that the costs and possible inconveniences

associated with the completion of the changeover to the euro are only temporary, while the advantages to be reaped will be both considerable and permanent.

The macroeconomic and microeconomic benefits for Europe and Greece from the introduction of the euro are numerous, and have been enumerated in detail in the past. I do not intend to go over them here, even though I have the impression that all of the parties involved may not be fully aware of them. I would, however, like to focus on two points which are directly related to the present conjuncture and to the conversion procedure to the euro in physical form, and which specifically concern Greece. Our economy has already drawn numerous benefits from Greece's adoption of the euro, since this adoption presupposed stability and led to it. Greece has achieved a high level of monetary and exchange rate stability in the long run, which promotes economic growth. The shielding of the economies of Greece and of the other euro area countries from exogenous shocks proved adequate in the aftermath of the tragic events of 11th September. The sudden and significant rise in uncertainty caused by the terrorist attacks on the United States was not accompanied by the tensions on the foreign exchange markets that we had become accustomed to seeing in the past. Apart from the macroeconomic benefits, however, the upcoming introduction of the euro banknotes and coins will ensure full transparency of prices, enhance consumer awareness and increase competition. As a result, inflationary pressures will be contained in the medium run. And, of course, the conversion costs between various currencies, which are quite considerable for consumers, especially in sectors such as tourism, will be eliminated.

In order to fully reap these benefits, consumers should try to become familiar not only with the physical appearance of the euro banknotes but also with the new scale of values. They should try to think of monetary values, not as amounts of drachmas but as amounts of euro. On the other hand, enterprises should introduce the new currency to their everyday transactions the soonest possible and refrain from any non-transparent pricing policies that could later weaken their competitive position.

One type of cost that might arise from the introduction of the euro - and which should be avoided or minimised - refers to unwarranted price increases on the occasion of the redenomination of prices as from 1 January 2002. European Commission surveys reveal that euro area citizens are concerned about this possibility. These concerns are also related to the fact that familiarisation with the new scale of values - what is expensive and what is not, in euro - is a learning process that will take time and require effort, alertness and patience on the part of citizens. However, so far there is no evidence that some enterprises might try to take advantage of consumers' lack of experience and increase their prices even before the beginning of 2002. In any case, competition is expected to protect consumers from unjustified price increases, as anyone who would charge higher prices would be faced with a loss of customers. Furthermore, enterprises are obliged by law to indicate prices both in euro and in drachmas, as well as to display, in their place of business, a conversion table from the drachma to the euro and vice-versa. This should help consumers become familiar with the new scale of values. Rounding rules must be strictly observed. Consumers, however, should be vigilant, in order to avoid any speculative increase in prices.

The physical introduction of the euro is an unprecedented event in European history. Its success does not hinge uniquely on concerted efforts of authorities at the European and the national level, but also on the preparation and cooperation of everyone of us. Citizens and enterprises should be prudent and calm during the physical introduction of the euro and the withdrawal of the drachma, and be understanding and patient in the face of any minor problem that may arise, since short-term adjustment costs will be more than offset by significant, long-lasting benefits.