

Mr Schmidhuber comments on the introduction of the euro and consumer protection

Speech delivered by Mr Peter M Schmidhuber, Member of the Directorate of the Deutsche Bundesbank, at the conference organised by the Kangaroo Group in collaboration with the European Parliament/European Commission entitled "Europe of the People: Towards the European Home Market" held in Rome on 30 September and 1 October 1999.

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I.

From 1 January 2002, euro banknotes and coins will be put into circulation. Depending on the national terms, the current national currencies will maintain their status as legal tender up to 30 June 2002 at the latest and will be accepted as a medium of payment at least by retailers. But consumers will be confronted with great changes from 1 July 2002, if not beforehand. Then they will finally have to get accustomed to the new medium of payment and to seeing prices denominated in euro.

It is common wisdom that the acceptance of the euro as legal tender by the public is crucial for the success of monetary union despite the fact that the single currency and its national denominations have been managed by the ECB since 1 January 1999.

The psychological test of the new currency will be in 2002, when the euro will replace the national currencies.

- In countries which had a stable currency, confidence in the old currency grew over the years. Now consumers must give up a currency with a proven stability record and exchange it for a new currency for which, of course, there cannot be any long-term proof of its stability. In addition, the introduction of the new currency is not limited to the consumers' own country, but instead involves another ten countries. For that reason, many consumers suspect that they will have made a bad bargain with the euro if the other economies do not prove to be as stability and growth-oriented as their own country.
- There are also fears that prices might be driven upwards through the changeover to the new currency without the consumers being able to figure out how or why.
- In some cases consumers are afraid of becoming victims of crime in connection with the introduction of euro notes and coins.

These quite understandable uncertainties in the minds of the people are being taken quite seriously. In the following, I would like to show you how a smooth transition to the euro will be made possible for consumers.

II.

As I already mentioned, people first have to become confident about the new currency. Maintaining price stability is the best way of convincing the people of the solidity of the new currency. After all, consumers are interested first and foremost in whether the new currency has the same purchasing power as the old one. A currency's purchasing power is closely linked to the currency's stability: the purchasing power does not change if the money remains stable. Purchasing power would decline if there were inflation in the euro area. Since inflation is a phenomenon of monetary policy, it is the task of the central bank to maintain price stability: if the central bank keeps the money stock in circulation under control, prices will not rise continuously. In other words, they will remain stable.

The stability of the new single currency has been enshrined in the Maastricht Treaty. The relevant regulations (article 105 (1) sentence 1 of the EC Treaty, article 2 (1) sentence 1 of the ESCB Statute) commit the European System of Central Banks to the primary objective of maintaining price stability. The goal is to achieve a state of zero inflation. Since the interpretation of what is to be understood by stable prices is quite flexible, the ECB Governing Council defined price stability as a situation where the Harmonised Index of Consumer Prices for the euro area is less than 2% below the preceding year's level.

The Harmonised Index of Consumer Prices is based on a specific basket of goods. A common minimum standard of consumer goods has been agreed upon. The range of the consumer goods included in the price index ranges from food, drink and tobacco products to clothing and household appliances to spending on health care, transport, education, leisure and specific services. As a result, the consumers' needs are already taken into account in the definition of price stability.

Let me mention briefly at this juncture that the stability of the euro is additionally supported by the governments of the Member States through their adherence to the Stability and Growth Pact.

Purchasing power depends mostly on the internal value, but also to a certain degree on the external value of the currency. The internal value reflects purchasing power within the currency area, whereas the external value – in our case the exchange rate versus the US\$, the world's leading currency – reflects purchasing power outside the euro area.

What can be said about the internal and external values of the euro less than one year after the introduction of the single currency?

- The internal value, i.e. the value within the euro area, is measured by the rate of inflation. The inflation rate in the euro area is as low as around 1%, and hence in line with the objective defined by the ECB Governing Council, according to which the rise in the Harmonised Index of Consumer Prices for the euro area must be less than 2% compared with the previous year. Hence, price stability has been virtually achieved in the euro area.

What are the reasons for this high internal value?

In monetary union, the advantages of the single market can be exploited in full. In the single market, the euro area countries conduct more than half of their trade with each other. Since enterprises are able to conclude contracts and invoice in the single currency, the fluctuations in the exchange rates between the individual national currencies no longer have the same effect they once had.

The effect of a stable internal value is thus not limited to the currency area. It is also a major precondition for the stability of the euro exchange rate.

- Compared with the internal value, the euro's external value is far less important for the individual countries of the euro area than before the start of Stage Three of monetary union. Imports account for only around 13% of euro area GDP.

For consumers, the external value has little or no immediate impact. It is true that the exchange rate of the euro vis-à-vis the US\$ influences the euro area's competitiveness on third markets and the prices of imported goods. Nevertheless, the external value of the euro may only play a role in the ECB's decisions insofar as it affects the general rate of price increases via import prices.

The euro's external value only has a direct effect on consumers if they have to spend either more or less money on their holidays outside the euro area or if they buy goods imported from the United States. But this situation already existed prior to the introduction of the euro. However, the only difference is that at that time, the currency area was much smaller, and the external value hence much more important.

III.

Having spoken about purchasing power, I would now like to talk about another important aspect for consumers. Stable prices make it easier for consumers to assess the development of prices. However,

prices in the new currency, which products must display from 2002, will be less transparent than before. Consumers must initially become accustomed to the new pricing in euro. Only then will they be able to assess whether they are receiving the same amount of goods as in the period of the former national currencies.

With the abolition of the national currencies, the people in the participating countries will lose their feel for prices established and trained since childhood. They will have to learn to live with the new currency. In the beginning, consumers will behave as if they were on a trip abroad and will continuously convert prices into the familiar old currency. Since the irrevocably fixed conversion rates are crooked numbers, they will normally not convert exactly. But for customers to be able to retrain their feel for prices, they need the help of retailers and banks in the form of a dual display of prices.

In surveys, consumers have repeatedly voiced concern that the changeover to the new currency will be taken as an opportunity by retailers to raise prices. This holds true for the popular signal prices like DM0.49 or DM1.99, for example, by which a clean price threshold is avoided. Owing to the crooked conversion rate, the conversion will result in crooked prices. But adjustments cannot be avoided for even prices, either. Market surveys have found that prices will go down by 5% at least in the creation of new signal prices. Consumers thus do not generally have to fear rises in prices – but there are always exceptions.

The currency conversion thus is a question of adequate information. This problem has been recognised at both the European and national levels, and several measures to inform the public have been initiated. The European Commission has assumed a pivotal role here. It initiated the following steps through several recommendations:

- For example, the Commission issued a recommendation concerning the dual display of prices and other monetary amounts which is applicable up to the end of 2001. Consumers should be able to slowly become accustomed to the euro prices and to gain a feel for prices so that conversion scopes in signal prices and adjustments of even prices cannot be exploited by retailers. This will create more transparency, and customers can ascertain that nothing has become more expensive as a result of monetary union. The Commission called upon the respective associations to implement its recommendation. For the dual display of prices, it proposed a minimum standard for the exactness of the prices. Retailers are also to indicate clearly whether they are prepared to accept payments in euro during the transitional period.
- Another recommendation by the Commission specifically addresses the fees charged by banks for the conversion of the euro. Accordingly, banks should follow a standard of good practice. In addition to converting national currencies into euro free of charge at the end of the transition period, it was recommended that banks envisage the conversion of “household amounts” of banknotes and coins from the national currency unit to euro for account holders. The recommendation was accepted by the umbrella associations of the individual participating countries’ banking industry. Some countries have already defined which amounts are considered to be normal household amounts. The amounts range from national currency to the equivalent of EUR500 in Portugal up to unlimited amounts in Finland, Luxembourg and Spain. In France, Germany, Italy and the Netherlands, the level considered to be a household amount has not yet been defined.
- Since banks’ actual compliance with the recommendation cannot be monitored with certainty, the Commission called upon consumers’ help in their own interest. Consumer associations and representatives at the European level and, if necessary, at the national level, were asked to inform the Commission of any events where it is likely that the banks’ practices will deviate from the recommendation and the suggested measures.

The Commission’s appeal to retailers has already borne fruit. Dual display of prices can now be seen in most shops. Thus, a sound basis has been created for consumers to gain a new feel for prices.

IV.

As I already stated at the beginning, some people fear that once the euro is introduced, they might become the victim of an offence against property.

Indeed, the introduction of the euro represents a vast area for criminal activity. It offers great potential, especially for money counterfeiters. Particularly in the starting phase, it can be assumed that consumers are not yet that familiar with the design of the euro banknotes and coins. There will hence be plenty of opportunities to bring counterfeit euro into circulation.

But there is no reason to assess the situation that pessimistically, since there are effective ways of counteracting these risks.

1.

Information measures can be used preventively at this stage. Consumers are to be informed already prior to the introduction of the currency about the design of the euro and especially about the security features. However, in addition, the conversion procedure, which at present has not been fixed completely, should also be published.

Several information campaigns introducing the design of the euro banknotes and coins have already been launched. I will only give a few examples:

The German Federal Ministry of Finance displays postcards depicting euro banknotes and coins free of charge in post offices. The ECB recently published a brochure titled "The euro banknotes and coins". In some municipalities of the participating countries, people even used symbolic euro banknotes and coins for their daily transactions during a specific period. Although numerous information campaigns are already under way, most of them will take place in the second half of 2001, without much time left to go before the introduction of the euro banknotes and coins.

2.

Further measures for counterfeit deterrence include instructing the appropriate authorities to examine counterfeits and to support criminal prosecution.

- Europol received an expanded mandate for counterfeit deterrence.
- A central analysis centre for currency counterfeits, the Centre for Analysis of Counterfeit Banknotes (CAC) will be established at the ECB.
- A counterpart authority for coins – the European Technical and Scientific Centre for the Analysis of Counterfeit Euro Coins – will be established at the French State Mint.
- Finally, the ECB Governing Council agreed to establish a database, the Counterfeit Monitoring System and Counterfeit Currency Database, which will gather technical and statistical data on the counterfeits.

You will certainly agree with me that the information campaigns, together with the counterfeit deterrence activities, are effective measures to curb the feared criminality.

Let me conclude this statement by addressing some aspects of consumer protection in the conception of the currency conversion and the banknotes and coins themselves.

- National legislation will make the procedure for the conversion of the banknotes and coins as simple as possible so that they meet the requirements of the cash payment systems and the national infrastructure in the participating countries. How the currency conversion will be executed in the individual countries will be announced in due time.

In the people's interest, it will be possible to exchange national banknotes at the respective national central banks even after the end of the transitional period for an unlimited or at least very long period.

- Consumer protection aspects were also taken into account in the decision on the denominations and the technical features of the euro banknotes and coins.

The banknote denominations range from EUR5 to EUR500. The coin denominations are 1, 2, 5, 10, 20 and 50 cents as well as EUR1 and 2. These denominations make it easy for consumers to make pay euro and cent amounts in cash.

To gain the public's confidence, a reliable and efficient banknote and coin system has been developed. Since confidence also depends largely on the technical features of the banknotes and coins, efforts were taken to make their design as user-friendly as possible. For example, consumer associations, the European Blind Union and representatives of the manufacturers of vending machines were consulted in order to meet the specific requirements of these important currency user groups. Consumer aspects were taken into account even in the alloying of the coins: for the protection of persons suffering from allergies, the nickel content in the coins was substantially reduced.

This was motivated by the reasoning that the changeover to the euro and the acceptance of the new banknotes and coins will be made easier if banknotes and coins are distinguishable by optical features and features identifiable by touch. Creating a link between the diameter and the face value of the euro coins has also make it easier to tell them apart.

Anyhow, consumers will quickly become accustomed to the new banknotes and coins in their daily operations.

VI.

Let me sum up my statement as follows:

The EC Treaty commits the European Central Bank to ensuring a euro which is conducive to price stability. Consumers are able to become accustomed to the prices in the new currency thanks to the dual display of prices. Likewise, people will be comprehensively informed about the design of the euro banknotes and coins. Finally structures are being created to curb crime in connection with the introduction of the euro as much as possible.

The basis for a smooth transition to the new medium of payment has been created. Consumers can hence look forward to a stable and counterfeit-proof euro in the next millennium.