

Speech

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TUESDAY 9 APRIL 2002

Experiences from the cash changeover in the euro area

Meeting of the Swedish Federation of Trade

Let me begin by thanking you for the invitation to come to the Swedish Federation of Trade's meeting to speak about the cash changeover that has taken place in the twelve countries now participating fully in the third stage of EMU.

The changeover from national banknotes and coins to euro has gone much more quickly and been more problem-free than expected and now the euro is an established currency in the countries concerned. The cash changeover was a major challenge for these countries, as the volumes were so extensive and the time period for the changeover was relatively short. Almost 15 billion euro banknotes and 50 billion euro coins were to be distributed, and at the same time all of the national banknotes and coins were to be withdrawn to the central banks. The logistics and security for the changeover therefore had to be specially designed and extra capacity was required. However, the most important factor in making the changeover a success was the enthusiasm of the general public and the naturalness demonstrated by banks, the retail trade and other institutions handling cash when carrying out their work.

Since the end of February the national currencies are no longer legal tender, the major exertion by society is over and life is beginning to return to normal in the euro countries. For Sweden, however, a changeover of banknotes and coins still lies ahead, if we were to say "yes" in a referendum on full membership of the monetary union. It is therefore important that all of us in various sectors of society take a look at how the changeover has worked in the different countries and learn from this. Today I intend to begin by discussing what experiences Sweden could learn from

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the cash changeover. After that, I shall say a few words about the timetable for a potential Swedish full participation in the third stage of EMU.

The cash changeover in the EMU countries

The overall picture painted by the ECB, the European Commission, embassies, central banks and media with regard to the euro introduction is that it has gone smoothly, and above all quickly. Only a few days into 2002 the euro was being used in most cash transactions and only a few of the problems that had been feared actually arose. On the other hand, other, rather more unexpected problems arose in the aftermath of the cash changeover, because of the rapid pace at which it occurred. I shall mention some factors here, both positive and negative, which have affected the outcome of the introduction of the euro.

The distribution of euro banknotes and coins had been well prepared in all countries of the euro area well before 1 January 2002. Euro banknotes – particularly the smaller denominations – had to a large extent been distributed in advance to banks and retail traders, beginning in September 2001, and the coins were distributed mainly to retailers and the general public in December. Without this preliminary work, the logistics of the transition would have been much more complicated, so frontloading can be considered a decisive factor in the successful outcome. The countries chose slightly different methods the frontloading of coins; e.g. in the Netherlands a major investment was made in providing a free set of coins to every citizen over the age of six years, while other countries sold sets of varying sizes at their face value. In this way, the euro coins soon became familiar to the general public and created an interest in the new currency. In Finland the central bank exchanged "company packages" equivalent to FIM 2,000 and containing both banknotes and coins, with the aim of preparing small companies for the transition. Common to all of the countries involved was that they supplied the retailers with large amounts of coins so there would be no shortage of change during the transition.

Another important factor in the cash changeover was the ATMs, as a large part of the euro banknotes was distributed via these. Many banks were closed on 1 January and an enthusiastic general public wanted to get hold of the new cash as quickly as possible, preferably on New Year's Eve. This meant that there was tremendous pressure on converting the ATMs to euro as quickly as possible at the end of the year, which the banks succeeded in achieving. On 2 January, 91 per cent of the ATMs in the euro area had been converted to euro, and it took only a couple more days until they all worked with euro banknotes. Many countries also distributed lower denomination banknotes (five and ten euro) via the ATMs to facilitate change for retailers. Despite this, and despite the advance distribution of coins, there arose a shortage of coins and of five-euro banknotes in a few places, although the system worked well on the whole. With regard to other types of machines, it has been reported that, for instance petrol machines could not accept euro banknotes at first. However, this is being overcome.

The changeover to the euro was done in different ways in different countries. Naturally, help was required from all those who handle cash, and despite this there were long queues in many places. However, the customers seem to have accepted this with relative equanimity, perhaps because it was a holiday period and many had

vacation at that point in time. The situation improved rapidly in the retail trade, but it took a little longer in the banks. The banks in a number of countries stayed open longer than usual to deal with the extra business, which was received positively. However, there have been reports that some banks did not wish to implement pure exchanges, but forced customers to deposit national currency in an account, only then putting the equivalent amount in euro at their disposal. This created some dissatisfaction that could have been avoided by giving customers more information in advance. In many countries the banks carried the heaviest burden, while in Finland, a country whose use of cash is similar to Sweden's, the retail trade had to shoulder a large part of the changeover, as the banks deal with cash to a relatively small extent. This example shows the importance of co-operation between the central bank, the banks, the post office, the retailers and other companies handling cash in order for a cash changeover of this scope to function.

One important lesson is that the retail trade would play a major role in the introduction of the euro, particularly if Swedish banks further reduce their cash management. The studies we have made of other countries' changeovers show that the retailers have chosen different approaches, as I am sure you already know. In some countries they have had, for instance, special exchange desks to avoid handling double currencies in the normal cash desks, something that has had varying results. On the whole, the turnover in the retail trade appears to have increased prior to the changeover, which is connected with an increased use of cash during the same period. Many consumers have quite simply chosen to consume extra during the late autumn of 2001 to use up their national banknotes and coins. The rapidity of the changeover appears to have simplified it for the retailers, as the period of using two different currencies was relatively short. In Sweden, the retail trade is already represented in the SIFS group (Consultation and Information with the Financial Sector), which is led by the Riksbank and as the preparations for a cash changeover proceed, we will certainly have reason for closer contact.

The rapid changeover to the euro has had the result that the need for transportation and storage of both euro and national currencies has increased and become more concentrated than estimated. It is above all the national currencies that have created storage problems for the retailers and banks, as return transport of these has had to wait until sufficient amounts of euro have been distributed in the market. Despite this type of problem, the speed with which the euro was introduced has meant that there have been calls in many countries to shorten the cash changeover period, which has lasted between one and two months. For instance, in Austria and Spain some shops have refused to accept schillings and pesetas, despite the fact that these were still legal tender, as it was considered unnecessary to have two parallel cash desks when the changeover was more or less complete. This is a question that must be considered carefully with regard to Sweden. I know that the retail trade would like to see the shortest possible cash changeover period and experiences from the current EMU members indicate that two months may be on the long side. However, there is a risk that an introduction of the euro might not occur as rapidly in Sweden at a later date, as the currency would no longer be exciting news and the general public would already have access to the banknotes and coins from other countries. Of course, it is also possible that

the Swedish people, as soon as the exchange rate is irrevocably fixed, will begin exchanging krona for euro and there will be unofficial use of euros. In this case, the changeover could be implemented in a very short space of time. It would also mean that the foreign exchange offices would play an important role in the cash changeover in Sweden. This question is one to which the Riksbank will return within the co-operation with the SIFS group.

One subject that often arose in the debate prior to the cash changeover was that surreptitious price rises could be made in the translation from national currencies to the euro, which would create inflationary pressure. This has been the focus of considerable discussion, particularly in Finland, as there they have chosen to continue their practice of rounding-off and to round off cash payments to the nearest five cents, something we would probably also do in Sweden if we adopt the euro. Eurostat's euro indicator for January 2002 shows that the price level in the euro countries rose by 0.5 per cent between December 2001 and January 2002. However, this is not considered to be caused primarily by the cash changeover - the effect of this is estimated to be somewhere in the interval of 0.0-0.16 per cent. The Bank of Finland has not yet made a complete analysis of how large an effect the cash changeover has had on prices, but the figures for the month of January give no indication of inflationary pressure from the price rounding-off. However, there have been reports from the Netherlands of some effects on inflation. In a number of other countries (e.g. Greece, France and Ireland) the authorities have been keeping a very close watch on price increases and are working to counteract them.

Naturally, there are a large number of other experiences from the introduction of the euro that could be mentioned in this context, and the Riksbank is working on a compilation of the information we have received from other central banks in the euro area. This compilation will be presented in the next progress report from the SIFS group (no. 8), which will be published in May.

Discussion of the timetable for a potential Swedish EMU membership

The timetable for a potential full Swedish membership of EMU will be determined by the political process. The Government Bill "Sweden and the Economic and Monetary Union" from 1997 states that if the government later finds that Sweden should participate in the monetary union, the matter should be put before the Swedish people. Pronouncements by, for instance, Prime Minister Göran Persson indicate that a referendum will be held next year. Other political leaders have expressed similar opinions. If the result is a "yes", then Sweden would put forward an application to the European Commission and the ECB for an examination of whether we fulfil the legal and economic convergence criteria. The economic criteria assessed are the inflation rate, long-term interest rates, exchange rate stability and the public sector's budget and central government debt. Following this scrutiny, the European Parliament and the European Council shall present their views on the reports made by the Commission and the ECB and after this the ECOFIN Council will decide on the Commission's proposal to allow Sweden to participate in the union.

If Sweden is accepted, there will be negotiations on when entry will occur and at what exchange rate the krona will be fixed against the euro, which is decided by the ECOFIN Council. After this a national changeover plan will need to be drawn

up. There are a large number of legal acts from the EU and the ECB that regulate how the introduction of the euro should be implemented. Although the legal acts currently only apply to the countries that have already adopted the euro as legal tender, the corresponding regulations will probably also be applied to future applicant countries. To keep the door open for a rapid future membership, the Riksdag (the Swedish parliament) decided back in 1997 that Sweden should maintain the highest possible state of readiness by continuing the technical and practical preparations for membership. The Riksbank has therefore been working on internal EMU preparations for almost five years now, as well as preparations together with the financial sector. This work is conducted within the SIFS group, whose seventh progress report was presented in the autumn and is available to read on our website.

The most recent progress report describes two possible transition scenarios, a gradual scenario and what is referred to as "Big Bang". A gradual transition would mean that the exchange rate would be irrevocably fixed on membership of EMU and the euro would become Sweden's currency, while banknotes and coins in krona would continue to be legal tender during a transition period. This means that if someone wants to pay with banknotes and coins in krona, they must be accepted as payment. During this period there is no compulsion to use the euro and no prohibition either. It would be fine to pay with euro if both parties are in agreement on this. The disadvantage of a gradual transition for Sweden is that, as euro banknotes and coins already exist in the euro area, it may seem strange to the general public that they cannot count on being able to use them completely in all transactions in Sweden right from the start. The advantages of a gradual transition are that the major technical and practical adaptations to the euro can be made gradually, while Sweden can participate fully in all forums for co-operation and decision-making within the monetary union as soon as Sweden joins, without having to wait until the practical work is complete.

With a gradual transition process, the financial and central government sector would require 1-1.5 years to prepare from the time that it is clear that Sweden will apply for membership until the krona exchange rate is irrevocably fixed on membership. After this, the financial sector requires a further year and the public sector requires approximately two years before euro banknotes and coins can replace krona banknotes and coins. This would in total involve a period of between two and three years from a referendum until the introduction of the euro is complete. However, I believe that this period can be shortened somewhat, assuming that the political process openly and clearly chooses a transition process and establishes a timetable for the different stages. It is worth remembering, in this context, that there is no reason why a cash changeover should have to be made at the start of a year, for practical reasons it would be better implemented in March or October.

Another alternative described in the report is known as "Big Bang", i.e. to begin a cash changeover at the same time as the krona exchange rate is fixed and full membership of the monetary union occurs. This scenario requires a preparation period of 2-2.5 years. This makes the demand that the euro can be handled *in all* transactions in Sweden, both physical and electronic, and *by everyone* in Sweden, from the corner tobacconist to the National Swedish Social Insurance Board and the major banks from the first day of membership. As this alternative involves a

simultaneous changeover in IT systems, other practicalities such as accounting and payment of taxes, as well as a physical cash changeover, it makes high demands on co-ordination and information. Taking into account the longer preparation period prior to the actual EMU membership required in this alternative, it would take longer until Sweden could fully participate in all forums for co-operation and decision-making within the monetary union than would be the case with a gradual transition process. The advantage of this scenario is that it would avoid uncertainty arising among the general public over the position of the euro during the transition period in that the euro could be used everywhere immediately.

It has not yet been established what kind of transition scenario we would have in Sweden. Nor is it yet clear how much time would be required, partly because the political process has not yet chosen a transition scenario and partly because changes are constantly being made in operations and IT systems that affect the time required for a potential transition. Examples of measures that reduce the time required for a potential membership are that IT systems that are being modernised for other reasons are designed to also process euros. Within the Riksbank we are working on reducing the length of time calculated as necessary for the production of Swedish euro coins. The result of our preparations and those of the financial sector are reported, as I mentioned earlier, in regular progress reports. Number 8 will be published in May.

Conclusion

In the event of a "yes" in a Swedish referendum on full participation in the third stage of the EMU, the whole of society needs to prepare for a cash changeover, and many decisions need to be taken as to how we shall proceed. In this situation Sweden would be under slightly different conditions than the current euro countries, as euro banknotes and coins already exist in the market. This is a circumstance that we must take into account in our planning, but despite this we will have considerable assistance from the fact that twelve countries have already implemented an introduction of the euro. We all have a lot to learn from studying their methods.