

Box 3

The changeover to the euro

Financial markets and payment and settlement systems opened in the morning of 31 December 1998 with low liquidity and only few transactions, as expected, while all stock exchanges in the euro area were closed. In the early afternoon, after the Council of the European Union had adopted the irrevocable conversion rates of the euro against the participating currencies, the changeover activities of the public and private financial sectors got under way. During the following three and a half days (known as the “changeover weekend”), the bulk of the public debt of the participating Member States was redenominated in euro, databases containing billions of electronic records were converted from the national currencies to the euro, and systems and procedures were adapted to function in the new currency. Conversion activities were practically concluded by late afternoon on 3 January 1999. The global financial and foreign exchange market opened in euro in Sydney at 6 p.m. C.E.T. on 3 January, while all segments of the financial markets in the euro area opened in euro on 4 January. The TARGET system closed at 7.30 p.m. on 4 January, after the financial community in the euro area had operated in the new currency for a full day. This allowed the Eurosystem to announce its first main refinancing operation in an environment fully operational in the new currency on the same day. Only five days

had passed between the opening of the markets in national currencies on 31 December 1998 and the close of business in euro on 4 January 1999.

The changeover weekend went smoothly, without any serious incident affecting the launch of the single currency, thanks to the commitment and hard work of a very large number of institutions. Sources in the media reported that a workforce of 50,000 was directly involved in the changeover during the weekend – not only in the euro area, but also in other major financial centres.

Within the Eurosystem preparations had been ongoing for some time. The first plan of action for the changeover weekend had already been approved by the Council of the European Monetary Institute in March 1998. After the establishment of the ECB, the Governing Council of the ECB examined reports on the changeover at four of its meetings. During the changeover weekend several thousand staff members were at work or on call at the ECB and at the national central banks.

The Eurosystem played a key role. It helped to compute, promulgate and publish the irrevocable conversion rates of the euro vis-à-vis the participating currencies; it co-ordinated the orderly transition to the new currency at the ECB and at the national central banks; it conducted final tests, when required, of the new infrastructure; it launched the new infrastructure for payment and securities settlement, including TARGET; it issued recommendations to credit institutions and securities settlement systems; and it participated in working groups and tests at the local level, together with representatives of the banking community. The Eurosystem also identified a number of systems and players – defined as the “core infrastructure” – with which it created ad hoc links for the exchange of information during the changeover weekend; these included payment systems, securities settlement systems, stock exchanges, global custodians and financial data providers. A “Changeover Weekend Committee” and a network of “central communication points” were created to gather and share information. A mechanism was set up to monitor 240 relevant steps in the conversion process which might impinge upon the smooth launch of the euro and the functioning of the monetary system (the so-called “milestones”). Contact was established with the central banks of the non-participating countries, of the G-10 countries and of other nations, with the European Commission and with a parallel network of institutions organised by the Banking Supervision Committee. The decision-making bodies of the ECB stood ready to gather in extraordinary teleconference meetings, if necessary. Information was exchanged continuously, both prior to and during the weekend; in particular, the state of advancement of the conversion activities was discussed during three teleconferences before the weekend and eight during the weekend among the central communication points at the ECB and at the national central banks.

The major concern of the Eurosystem was to avoid a breakdown in the transition to the euro – at the ECB, at any national central bank or within any of the systems of the above-mentioned “core infrastructure” – hampering the functioning of the monetary system, perpetuating the pre-existing segmentation of money markets or confronting the monetary authorities with risks for financial stability at the very start of Monetary Union.

The conversion of the national currencies to the euro during the changeover weekend had all the features of a major engineering endeavour. It imposed a unique co-ordination effort upon the Eurosystem as well as upon the banking and financial community of the euro area and beyond. It was a test of the capacity of the European financial industry to work under extreme pressure. The satisfactory outcome of the changeover process is a sign of the quality of the preparatory work conducted over the past two years by the banking community and by other financial market operators in the euro area.