

# The introduction of euro banknotes and coins

The successful introduction of euro banknotes and coins in the euro area, which comprises around 300 million citizens, is in many respects a huge challenge. First, the launch of the euro banknotes requires an initial supply of 14.25 billion banknotes – representing a value of around €642 billion – to be available by the end of this year. The euro banknotes are currently being produced by 14 different printing works in Europe, including a number of NCB printing works. Second, the banking sector, security carriers as well as retailers and the cash-operated machine industry need to be closely involved in the preparations at an early stage, as a smooth cash changeover can only be achieved in a short period of time by systematic and co-ordinated interaction on the part of all leading actors. Third, the successful introduction of euro cash must be accompanied by an information campaign to prepare the general public and professional cash handlers in Europe for the new currency. Finally, a series of legal and organisational measures need to be taken to ensure both a successful cash changeover and smooth circulation in the future. The role of the ECB can be described as that of a central co-ordinating, controlling and monitoring body, focusing in particular on the timely production of euro banknotes and on the organisation of the changeover.

## I Production of euro banknotes and coins

### Multiphase lead-up to the production of more than 14 billion banknotes

Ten years will have passed between the conception and launch of the euro banknotes, for the process began back in 1992. Following the completion of the design competition in 1996, intensive work began to transform the draft designs into master printing plates (origination material). In order to check the compliance of the master printing plates with the general specifications, a pilot series was printed in 1998. The next important milestone in the lead-up to production was the approval of the technical specifications, comprising both the authentication features and all other characteristics of the euro banknotes; this approval was given at the beginning of 1999 and the production of euro banknotes started in July that year.

The volume of euro banknotes to be produced by the end of 2001 amounts to 14.25 billion, representing a value of around €642 billion. The number of banknotes includes both the launch and the logistical stocks. On top of that, the Governing Council of the ECB approved in March 2001 an additional production amounting to around 10% of the launch requirements. This central reserve arrangement is a further measure intended to contribute to a smooth cash changeover.

### Monitoring and controlling the decentralised production

The decentralised production requires tight monitoring and controlling in order to ensure timely progress and banknote consistency. As each printing works determines its own production schedule, the ECB must be able to verify that the banknotes are being produced within the given time-frame. For this purpose, the ECB collects monthly information, conducts regular analyses and evaluates contingency plans.

### Uniform quality of the banknotes and coins

Producing banknotes to the same quality standards at 14 printing works – using raw materials from different suppliers – is a demanding task. It is essential to ensure that the visual appearance is identical and that the performance is consistent in both banknote-sorting and banknote-accepting machines. Therefore, all the printing works have implemented a common quality management system, based on ISO 9000 quality standards.<sup>1</sup> The proper implementation and application of

<sup>1</sup> The ISO 9000 quality standards concern the organisation of a quality management system and demand the fulfilment of certain conditions covering all processes in an organisation, irrespective of the business of that organisation.

the quality system is being assessed by the ECB on the basis of detailed monthly reports and annual audits conducted at the production sites.

The euro coins, of which the Member States are the legal issuers pursuant to the Treaty establishing the European Community, are being produced in 11 countries by 15 different mints. In June 1999 the EU finance ministers, the mints and the ECB agreed on a detailed quality management system to ensure that the quality of euro coins was both high and uniform. Each mint is responsible for the quality of its own coins in accordance with common rules. The ECB acts as an independent assessor. It evaluates the monthly quality reports on the coins produced and conducts quality audits of the mints.

### **Protecting euro banknotes against counterfeiting**

The Governing Council of the ECB has agreed upon measures for preventing counterfeiting,

for monitoring any counterfeiting activities and for assisting law enforcement authorities. First, euro banknotes will be protected against counterfeiting by the incorporation of effective authentication features, e.g. visually recognisable features – such as watermarks, which can be easily identified by the public – and machine-readable features. Second, the ECB is currently establishing a database to store technical and statistical data on counterfeit euro banknotes and coins. As an important part of the envisaged information system on euro banknote counterfeits, the Governing Council of the ECB has also decided to set up a counterfeit analysis centre. Third, measures involving Europol, Interpol and the European Commission have been taken to ensure co-ordination and an efficient flow of information in order to prevent and combat counterfeiting.

## **2 The logistics of the changeover to euro banknotes and coins in 2002**

### **Changeover framework**

In order to ensure a smooth cash changeover, the logistics of the 2002 cash changeover have been determined well in advance; this should allow enough time for all those concerned to make the necessary preparations. During the second half of 1999, there were intensive discussions with all those involved, which enabled finance ministers from participating Member States, in co-operation with the NCBs and in line with the views expressed by the ECB, to reach a consensus on the outline of the cash changeover as follows:

- Euro area Member States will do their best to ensure that the bulk of cash transactions can be made in euro within a fortnight of €-day, 1 January 2002.

- Euro area Member States consider that the withdrawal period, i.e. the period of dual circulation for the old and new banknotes and coins, should ideally last between four weeks and two months. Member States may facilitate the exchange of national banknotes and coins after this period.
- To provide for a sufficient quantity for circulation in the first few days of January 2002, it would be helpful if financial institutions and certain other groups, notably cash-in-transit companies and retailers, were provided with banknotes and coins some time before €-day. Member States may recall that such frontloading must not lead to euro banknotes and coins being put into circulation before 1 January 2002.

- In order to help people familiarise themselves with the new coins and to facilitate the changeover, euro area Member States agree that making limited quantities of coins available to the public on request – notably to vulnerable groups of the population – can be envisaged, but not before the second half of December 2001.

As announced on 3 August 2000, the Governing Council of the ECB has agreed on the general principles for the financial modalities of the 2002 cash changeover. The decisions were reached taking into account the major role that credit institutions will play in making the 2002 cash changeover a successful operation and relate to the following matters:

- frontloading/sub-frontloading,
- the debiting model, and
- coverage of risks.

Within this framework, the changeover plan is a national responsibility.

**Frontloading/sub-frontloading: distribution of euro banknotes and coins as from 1 September 2001**

The Eurosystem recognises that the shortening of the cash changeover period agreed by the ECOFIN Council will require the active frontloading of euro banknotes and coins to credit institutions and, via the latter, to certain other target groups (i.e. sub-frontloading to retailers and the cash-operated machine industry). The lead time for frontloading greatly depends on the national changeover scenario chosen, as well as on the national logistical infrastructure.

In the light of this, the Governing Council of the ECB has approved the start of frontloading and sub-frontloading of banknotes to professional target groups as from 1 September 2001. However, each NCB

is free to operate within the maximum lead time in order to meet the frontloading needs. This also implies that the lead time determined at the national level may differ between target groups as well as between banknotes and coins.

As mentioned earlier, the euro coins can be sub-frontloaded to the general public as of the second half of December 2001 and most participating countries have already decided to do this. Unlike coins, the sub-frontloading of banknotes to the general public has been ruled out by the ECB. This stance is fully in line with the view of the ECOFIN Council expressed at its informal meeting in Versailles last September. Banknotes and coins are being treated differently because of the risks and benefits associated with their early distribution. The main arguments for this different treatment are as follows:

- unlike banknotes, coins are normally put into circulation largely through retailers, therefore the sub-frontloading of coins to the general public will mitigate the risk of bottlenecks in the retail market; conversely, the major volume of banknotes will enter into circulation via ATMs;
- coins are more adaptable than banknotes because they simplify purchases and allow a customer to either pay the exact amount or to add coins to a banknote and thus to receive change in banknotes and/or high-denomination coins only;
- sub-frontloading of banknotes to the general public increases the risk of counterfeiting at a time when the public is still not fully accustomed to the euro banknote security features;
- sub-frontloading of both banknotes and coins to the general public might cause confusion, since it would not be possible to prevent consumers from using them before 1 January 2002. However, the risks associated with coin sub-frontloading seem minimal, given the low values of coins and their use as change; and

- the logistics of the introduction of coins are more complex because of their weight. This warrants sub-frontloading to the general public.

Overall, the sub-frontloading of banknotes to the general public bears more risks than benefits. Concerns expressed by retailers about holding large amounts of cash in the first few days of 2002 are, however, being taken into account. In order to address these concerns various measures are being considered and some of them have been adopted in several countries. These measures include:

- replacing higher national denominations in ATMs with lower ones at the end of 2001 so as to ensure that small amounts can be readily paid, thus reducing the need for retailers to have large cash holdings;
- dispensing lower denomination euro banknotes (i.e. €5, €10) via ATMs at the start of 2002. This measure would be very useful given that, on average in terms of transactions, around 70% of banknote withdrawals are made via ATMs;
- establishing temporary exchange points;
- making welfare payments, which in some countries are largely in cash, using lower banknote denominations; and
- conveying certain messages in the Information Campaign (e.g. encouraging the general public to minimise their cash holdings before the end of 2001 or to wait until the initial rush is over before exchanging national currency banknotes and coins at banks, to start using the euro in fiduciary form as soon as possible, and to offer the exact amount in payment wherever possible).

### **Debiting model**

The debiting model, which is simple and easy to implement, will not interfere with the relationship between credit institutions and

their clients. In accordance with this model, euro cash frontloaded to credit institutions is to be debited, taking into account the provisional settlement dates of the first, fourth and fifth main refinancing operations in 2002 respectively. Thus one-third of the frontloaded euro cash will be debited at each of the main refinancing operations on 2, 23 and 30 January 2002.

### **Coverage of risks**

The Governing Council has approved the scheme for the coverage of risk, which can be roughly summarised as follows:

- frontloading to credit institutions will be performed up to 31 December 2001 without collateral on the basis of an agreement whereby the ownership of the still non-legal tender will be retained by the NCBs of the Eurosystem;
- delivery of collateral from credit institutions to the NCBs of the Eurosystem will be required by the end of the last business day of 2001 for the amounts of frontloaded cash delivered by 31 December 2001 but not yet debited;
- credit institutions will have to cover the risk of loss resulting from the destruction, theft or robbery of the frontloaded cash as well as the risk of its premature use by the public; and
- sub-frontloading will be performed by credit institutions against the delivery of appropriate collateral to the NCBs.

### **Cash changeover outside the euro area**

Every effort will be made to ensure the smooth introduction of and changeover to the new banknotes and coins, so that customers requiring euro banknotes are able to obtain them promptly and efficiently. In the light of this, it is also very important to be proactive in addressing the issue of the

international changeover and to prepare markets and the general public outside the euro area so as to minimise costs and disruptions.

As announced on 14 December 2000, the Governing Council of the ECB has adopted measures which will help to ensure the smooth changeover to euro banknotes and coins outside the euro area, as follows:

- credit institutions which are counterparties for monetary policy operations within the Eurosystem will be allowed to distribute frontloaded euro banknotes to their branches or headquarters outside the euro area, as appropriate;
- credit institutions with their main place of business inside the euro area will be allowed to sub-frontload euro banknotes to those of their subsidiaries which are also credit institutions and which are located outside the euro area, or to other credit institutions which have neither their registered office nor their head office inside the euro area; and
- branches, headquarters, subsidiaries and other credit institutions will not be allowed to sub-frontload to third parties (e.g. retailers) outside the euro area.

The financial modalities are to be applied for the frontloading/sub-frontloading as outlined above, with the exception that credit institutions will only be allowed to start distributing euro banknotes outside the euro area as from 1 December 2001.

Given the responsibility of the Eurosystem as a whole to ensure a smooth cash changeover

and owing to the critical importance of the above, it was felt necessary to make a transparent legal framework available to the public so that all those involved would be aware of the basic rules to be followed in preparation for the introduction of the euro banknotes and coins. Therefore, the Governing Council of the ECB adopted an ECB Guideline on certain provisions for the 2002 cash changeover, which was published on the ECB's website on 1 February 2001 and subsequently in the Official Journal of the European Communities.

In addition to these measures, the Eurosystem will be looking into other measures in the first half of 2001 to ensure that there is a smooth changeover to euro banknotes and coins outside the euro area.

#### **Cash Changeover Co-ordination Committee**

In respect of the cash changeover, a Eurosystem Cash Changeover Co-ordination Committee has been established comprising representatives from the ECB and the NCBs. The Committee will have overall responsibility for the co-ordination of the changeover to euro banknotes and coins until the end of February 2002. It will monitor the preparatory work carried out in relation to the issuance of, and changeover to, euro banknotes and coins and establish a Eurosystem-wide information exchange framework in the run-up to €-day and thereafter. Similar committees were established to prepare for the adoption of the euro at the beginning of 1999 and for the transition to the year 2000.

### **3 The Euro 2002 Information Campaign**

As part of the ongoing preparations for the introduction of the new euro banknotes and coins on 1 January 2002, the Euro 2002 Information Campaign is currently under way to keep people in the euro area and beyond

informed of the developments relating to the new banknotes and coins. In particular, the campaign focuses on the appearance and the denominations of the new banknotes and coins, the security features of the banknotes,

as well as the overall changeover modalities. The campaign, approved by the Governing Council, is being run by the ECB and the NCBs. It is designed to complement the campaigns being organised by the Member States.

In order to reach as many people in the euro area as possible, the campaign uses four channels of communication:

- a Partnership Programme;
- public relations and press activities;
- a Mass Media Campaign; and
- a dedicated website.

### **The Partnership Programme**

This is one of the cornerstones of the campaign and is open to any private or public sector organisation which is willing and able to pass on practical information about euro banknotes and coins to its staff and customers. Key sectors are the public, banking, and retail sectors, as well as travel and tourism businesses and organisations.

The Partnership Programme is being implemented at the national level by the NCBs, while the European and international elements of the programme are being co-ordinated by the ECB.

### **Public relations and press activities**

A public relations and press programme has been established in an effort to maximise public interest in the euro banknotes and coins.

This initiative includes a series of Euro 2002 Information Campaign conferences, focusing on the euro banknotes and coins and different elements of the changeover. The first conference, which featured an address by the President of the ECB took place in Brussels

on 6 March, hosted by the Nationale Bank van België/Banque Nationale de Belgique. The second conference was hosted by the Banco de España in Madrid on 4 April, and further conferences will be organised by the other NCBs of the euro area throughout the year.

There is also an “editorial countdown” to €-day, 1 January 2002, which is based on six key dates in 2001: € -365 – 1 January 2001, € -300 – 7 March 2001, € -200 – 15 June 2001, € -100 – 23 September 2001, € -50 – 12 November 2001 and € -30 – 2 December 2001. A tailor-made media kit has been prepared for each key date and will be distributed across the euro area.

In addition to the media kits, a comprehensive information kit has just been produced for the general public.

### **Mass Media Campaign: the EURO. OUR money**

The Mass Media Campaign will be launched in September 2001, following the unveiling of the final visual appearance of the euro banknotes and their security features. It will consist of TV commercials and print adverts. The media plan will be co-ordinated at the national level in order to make good use of the relevant media and to complement national campaigns.

In addition to the Mass Media Campaign, public information leaflets will provide more detailed information on the appearance and denominations of the euro banknotes and coins, as well as the banknote security features.

### **Website**

The Euro 2002 Information Campaign’s dedicated website ([www.euro.ecb.int](http://www.euro.ecb.int)) was launched in February 2001 in the 11 official languages of the European Community. The website features seven sections: Euro banknotes and coins, Information for

organisations, Getting ready for the euro, Background information, News and events, Children's zone and a restricted-access Partners' area. These sections will be updated regularly to provide the general public with comprehensive and accurate information.

#### **Other elements**

The campaign will also focus on cashiers, the educational sector, police forces, as well as target groups outside the euro area. Specific measures are being taken in relation to vulnerable sections of the population,

including collaboration with the European Blind Union, under the auspices of the Partnership Programme. As part of this collaboration, funding from the campaign budget has gone towards the production of a brochure containing information on the euro banknotes and coins and made available in three specially-adapted formats (large print, audio and Braille).

Steps are being taken to ensure that comprehensive information is also made available in both the accession countries and in other countries in which the currencies of Eurosystem countries are widely used.

## **4 Concluding remarks**

The simultaneous exchange of banknotes and coins in 12 countries is an enormous challenge, which requires the commitment of all parties involved at the European and national levels. The production of banknotes and coins will be completed on time. The

decisions of the Governing Council of the ECB relating to the 2002 cash changeover has allowed third parties to proceed with their preparations on schedule, which will ensure that the changeover is both smooth and successful.