The euro cash changeover in markets outside the euro area

On 1 January 1999 the euro was established as a new currency. On 1 January 2002, three years later, the euro banknotes and coins will be issued. With their arrival, the process of introducing a single European currency as agreed in Maastricht in 1991 will finally be complete. Paying with a single currency in daily transactions throughout the euro area can be regarded as an achievement of historic proportions and a major step towards greater European integration.

A significant number of banknotes issued by the NCBs of euro area countries circulate outside the euro area, especially in the EU accession countries and other neighbouring countries. Every effort should be made to ensure a smooth cash changeover both inside and outside the euro area. Extensive preparations have already been made for the smooth changeover inside the euro area. It is equally important for the Eurosystem to address proactively the issue of the international changeover and to prepare the markets and the general public appropriately so as to minimise costs and disruption. Efficient procedures are required to ensure that people who want euro in fiduciary form are able to obtain them.

This article outlines the logistics of the cash changeover in markets outside the euro area and the related parts of the Euro 2002 Information Campaign.

I The logistics of the 2002 cash changeover outside the euro area

Some of the euro area currencies are also popular outside the euro area. For example, it is estimated that around 30 to 40% of Deutsche Mark banknotes in circulation are held outside Germany, with the majority probably in eastern and south-eastern European countries (including Turkey). Because of the close trading and tourism links between the euro area and these countries, it is to be expected that a large part of these holdings will be replaced by euro. The banknotes of the “legacy” currencies of the euro may be brought back at the beginning of 2002 to be exchanged at the counters of commercial banks, bureaux de change and central banks mainly in Austria, Germany and Finland as they have common borders with such countries. The exchange of old banknotes for new euro banknotes is expected to be concentrated at the very outset of 2002, mainly due to the fact that Deutsche Mark banknotes will cease to be legal tender on 31 December 2001. Although it is difficult to predict the precise volumes and times at which these banknotes may appear, pre-empting possible demand for euro banknotes by selecting appropriate distribution channels may help smooth the introduction of the euro.

Frontloading central banks outside the euro area

In the light of this, and taking into account the fact that the Governing Council of the ECB has already agreed on the main features of the financial modalities for the 2002 cash changeover and on the distribution and sub-frontloading of euro banknotes outside the euro area, the Eurosystem has addressed the issue of frontloading euro banknotes to the central banks of non-participating Member States, accession countries and certain other countries.

Taking on board the legal and logistical considerations, the Governing Council has decided – as announced to the public on 5 July 2001 – that, in the interest of a smooth cash changeover outside the euro area, these central banks can be frontloaded upon request, subject to the following specific terms and conditions:

- Frontloading of central banks will only be allowed as from 1 December 2001.
- Central banks outside the euro area will not be allowed to put the frontloaded
Euro banknotes into circulation prior to 1 January 2002.

- Frontloaded central banks outside the euro area will have to settle the payment for the frontloaded amounts on the first business day of 2002.

- Frontloaded central banks will have to agree to store the euro banknotes and coins securely in order to prevent theft, robbery or destruction, and to take out appropriate insurance to cover such risks.

- In order to cover credit risks, frontloaded central banks will be required to provide the euro area NCB concerned with collateral from the moment of frontloading for the amounts of the frontloaded euro banknotes and coins until their guarantee obligations have been discharged. Collateral will be denominated in euro in order to avoid any exchange rate risks in the event of the realisation of such collateral.

- Central banks outside the euro area will be required to provide frontloading NCBs upon request with information on the identity of their sub-frontloaded customers, as well as the amount of sub-frontloaded banknotes per individual customer.

- Central banks outside the euro area will be required to apply appropriate measures against money laundering in connection with frontloaded euro banknotes.

All operational and practical arrangements for such frontloading will be taken care of bilaterally by the euro area NCB concerned and the counterparty central bank. In other words, a foreign central bank wishing to be frontloaded needs to contact one of the 12 euro area NCBs to make such arrangements. Central banks outside the euro area will be allowed to sub-frontload credit institutions within their respective jurisdictions as from 1 December 2001 in accordance with certain rules:

- The recipient credit institution shall not further sub-frontload or otherwise dispose of sub-frontloaded banknotes prior to 1 January 2002.

- The recipient credit institutions shall store the sub-frontloaded euro banknotes safely in order to prevent theft, robbery or destruction and they shall cover those risks by obtaining appropriate insurance or by other appropriate means.

- Central banks outside the euro area shall at any time have the right to audit and inspect the sub-frontloaded euro banknotes to confirm the fulfilment of the conditions concerning non-disposal and safe storage of the euro banknotes.

- The recipient credit institutions shall apply appropriate measures against money laundering in connection with sub-frontloaded euro banknotes.

On 13 September 2001, the Governing Council adopted an ECB Guideline on certain provisions on frontloading outside the euro area, which was published on the ECB’s website at www.ecb.int and subsequently in the Official Journal of the European Communities.

**Sub-frontloading by credit institutions located outside the euro area**

In accordance with the ECB Guideline of 10 January 2001, which adopted certain provisions on the 2002 cash changeover, banks will be allowed to distribute frontloaded euro banknotes to their branches and headquarters located outside the euro area as from 1 December 2001. In addition, the Guideline allows frontloaded banks, from the same date, to sub-frontload their subsidiaries outside the euro area, as well as other banks which have neither their registered/head office nor any branches inside the euro area. Furthermore, in order to ensure a smooth cash changeover outside the euro area, the Governing Council – as
announced on 13 September 2001 – has decided to allow non-euro area credit institutions operating in the worldwide wholesale banknote market to sub-frontload euro banknotes to their customer banks outside the euro area from 1 December 2001. The detailed terms and conditions, which are in principle the same as those applying to foreign central banks, have also been laid down in the aforesaid ECB Guideline (see also the previous sub-section).

**Adaptation of ATMs and currency sorting and accepting machines located outside the euro area**

At its meeting on 14 December 2000, the Governing Council approved a framework for decentralised euro banknote tests for the manufacturers of banknote-accepting and processing machines and the banking sector in 2001. Accordingly, in-house tests by the above manufacturers will be allowed as part of the frontloading operation as from 1 September 2001. This means that parties entitled to be frontloaded/sub-frontloaded will be able to carry out in-house tests, which will facilitate the adaptation of machines and pave the way for a smooth changeover.

Taking the above factors into account, the Governing Council decided at its meeting on 21 June 2001 that euro banknotes could be made available to non-euro area manufacturers to enable them to adapt their machines in time for the cash changeover. In this context, it was deemed appropriate, mainly for logistical reasons, to centralise the delivery of such banknotes. Therefore, the Deutsche Bundesbank has been authorised to sell euro banknotes to non-euro area manufacturers, which have already participated in the euro test runs and have signed an agreement on the non-disclosure of confidential information. Eligible non-euro area manufacturers can purchase euro banknotes at face value and transport them to their premises for testing purposes on the following conditions:

- The euro banknotes are to be used exclusively for testing purposes.
- The counterparties are prohibited from passing on the purchased euro banknotes to any third parties whatsoever prior to 1 January 2002.
- The counterparties are required to store the euro banknotes securely in order to prevent theft, robbery or destruction, and to take out appropriate insurance to cover such risks.
- Any breach of the obligations of counterparties receiving banknotes for in-house tests will be subject to the payment of contractual penalties.

**2 Final phase of the information campaign**

**Euro 2002 Information Campaign**

With the unveiling by ECB President, Willem F. Duisenberg, of the security features of the euro banknotes on 30 August 2001, the Euro 2002 Information Campaign entered its most important phase. The mass media campaign was launched and, with the embargo on the security features lifted, the distribution of training kits and master material for posters, leaflets and other information for retailers, bankers and other cash handlers commenced.

**Mass media campaign**

The campaign advertising is designed to portray a dynamic and modern image, which works across the euro area and beyond. Television advertising commenced in all euro area countries in September and will continue until January. Advertising in the national press supports this TV campaign. In addition to these advertisements, the campaign aims to deliver most of the 200 million Public Information Leaflets being produced to
households in the euro area during October and November.

The purpose of the mass media campaign is to familiarise the public with the appearance of the banknotes and coins as well as with their security features. The advertising on the security features is designed to reassure people and to increase their awareness that, by taking a little care and quickly examining some of the security features, they can easily check the authenticity of the banknotes. This applies equally to cashiers and to the general public.

Beyond the euro area

A significant part of the campaign is dedicated to providing information and raising awareness outside the euro area. It is not necessary to achieve such a high level of coverage among the general public in non-euro area countries, so the policy is to target information at those who will need it for business or travel, as well as at the banking sector. For this reason, the campaign is co-operating with partners in the international travel and banking sectors, and will advertise in in-flight media and at airports. Mass media will also be used, with advertising on international TV channels and in the international press. This part of the mass media campaign will be implemented in December.

The international version of the Public Information Leaflet is being made available in 23 languages in addition to the languages of the campaign. This includes the languages of the accession countries and those countries where the legacy currencies are currently widely in circulation. The leaflet shows and describes the banknotes and coins and provides basic information about the changeover. For most people, this is all they will need to know about the new banknotes and coins. The extent to which it or the other campaign information materials are made available in these countries will depend largely on the degree to which the central banks and the banking sectors of these countries elect to use them for their information purposes.

Furthermore, some euro area NCBs are taking additional measures in countries where their national currency is in wide circulation.

The information campaign itself represents something of a logistical challenge, although, admittedly, not as great as that faced by those responsible for the cash distribution. The campaign must satisfy the need to proactively supply the public with information on the money that they will soon be using and be able to respond to their requests for information on “the EURO. OUR money”.
