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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, xxx
SEC(2004) 1383

COMMISSION STAFF WORKING PAPER

Annex to the :

First report on the practical preparations for the future enlargement of the euro area

{COM(2004)748 final}

1. INTRODUCTION

This working paper, drawn up by the Commission services, provides additional information of a more detailed and technical nature on the preparation for the introduction of the euro in the Member States concerned.

Section 2 presents a detailed analysis of the state of public opinion in the newly acceded Member States in relation to the introduction of the euro. The complete Eurobarometer will be made available on the Commission's website.

Section 3 compares use of the different means of payment (both cash and non-cash) in the Member States concerned and the euro area, while Section 4 provides information on the number of automatic vending machines.

Section 5 indicates how the Commission is directly involved in the changeover preparations, particularly as regards practical preparations (the Public Administrations' Network: PAN-II) and information and communication (the Directors of Communication: DIR-COM). The EU budget also provides financial support through the PRINCE citizens' information programme on the Union's policies. Specific resources have been earmarked for information programmes on the euro and on Economic and Monetary Union (EMU).

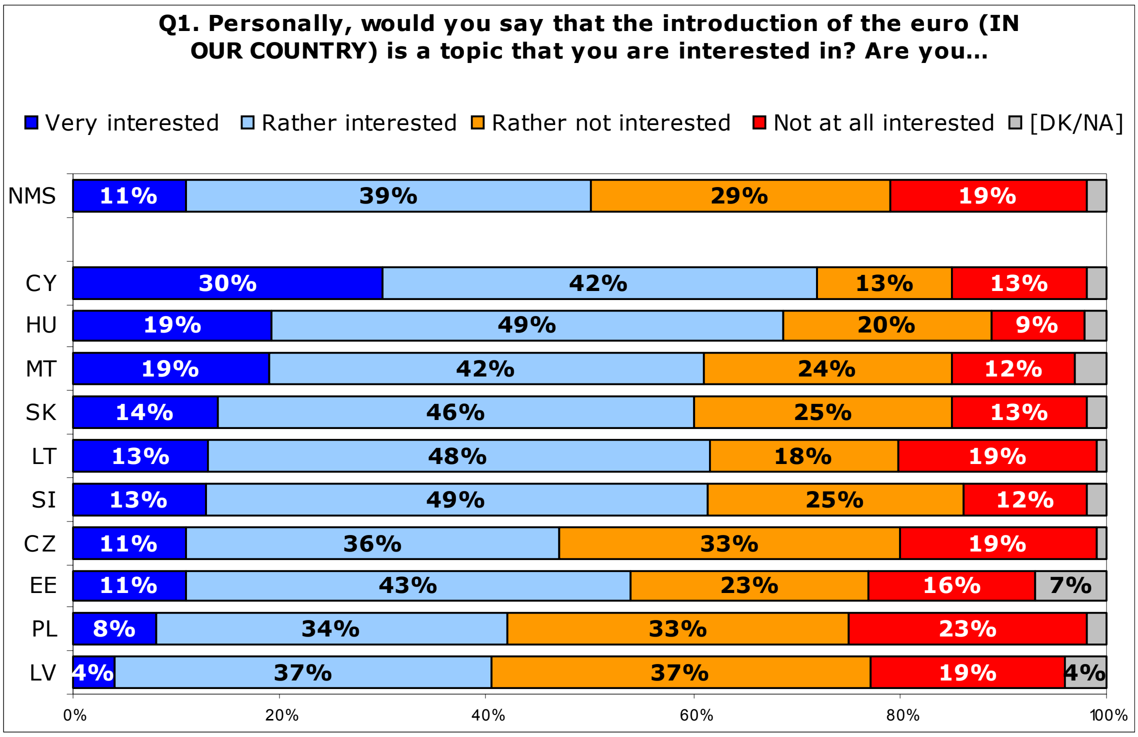
Annex 1 of the working paper summarises the different steps, starting with the adoption of the "Madrid scenario" in December 1995, which ultimately led to the introduction of the euro in the present euro-area countries. Seven out of the ten newly acceded Member States have also experienced a major currency changeover operation in their recent history, as summarised in Annex 2.

2. THE DETAILED RESULTS OF THE LATEST EUROBAROMETER

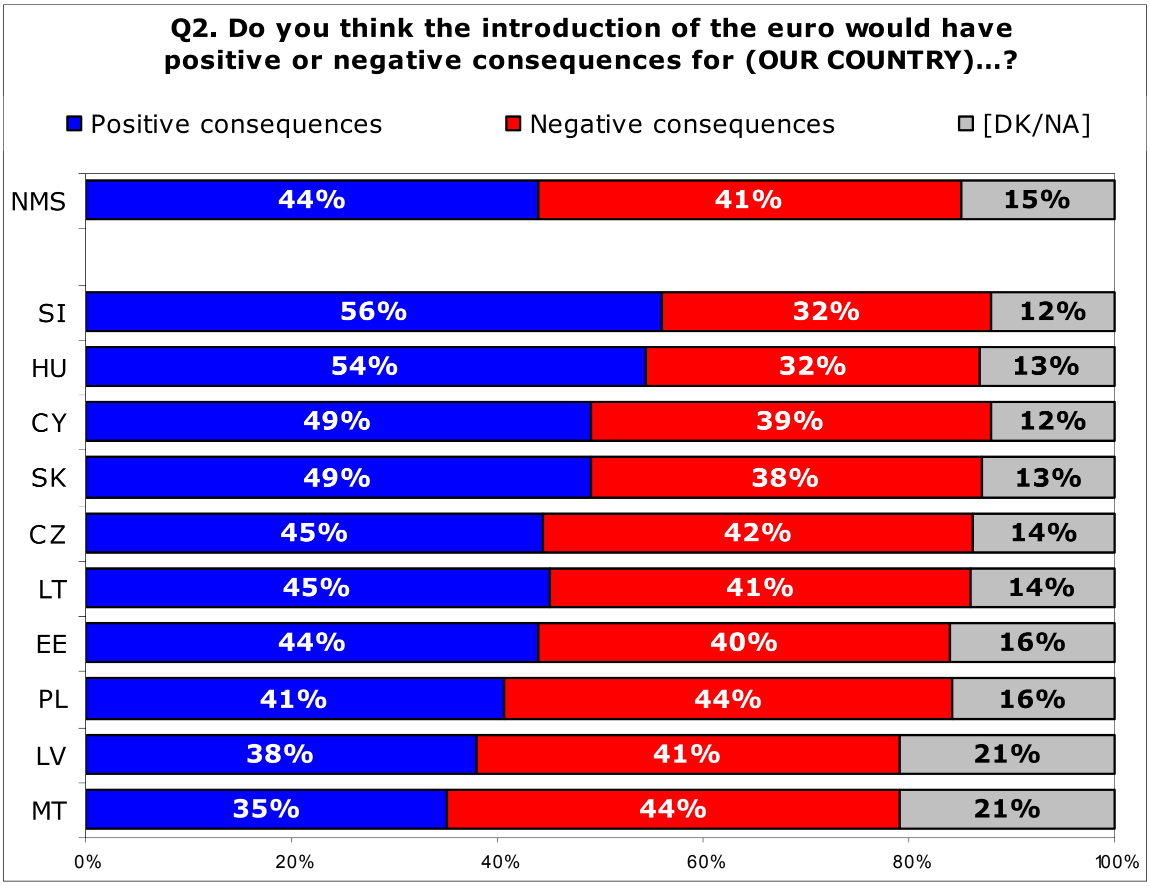
With a view to ascertaining the public's opinion on the potential future enlargement of the euro area to the newly acceded Member States, the European Commission has launched a new series of Eurobarometer surveys. From 1 to 15 September 2004 EOS Gallup conducted the first of these surveys, polling over 10,000 citizens throughout the newly acceded Member States[1]. It had two main objectives: to analyse what the public think about the possible introduction of the euro and to assess how much they know about it.

The general **level of interest** in the introduction of the euro was low, with only 50% of respondents interested in this topic while 48% were not. This may be because the date of introduction of the euro in the newly acceded Member States generally remains uncertain; it will only take place at the end of a convergence process consisting of many stages and it could in some cases be completed only in the medium term.

1 The Eurobarometer surveys are available at http://europa.eu.int/comm/public_opinion/index_en.htm



Respondents in Cyprus show the highest level of interest with a rate of 72%. Hungary follows with 68% of respondents showing interest in the introduction of the euro in their country. On the opposite side of the graph we can note that Latvia has the lowest rate of interest at only 41%. The Polish result is similarly low, with only 42% of the respondents showing an interest

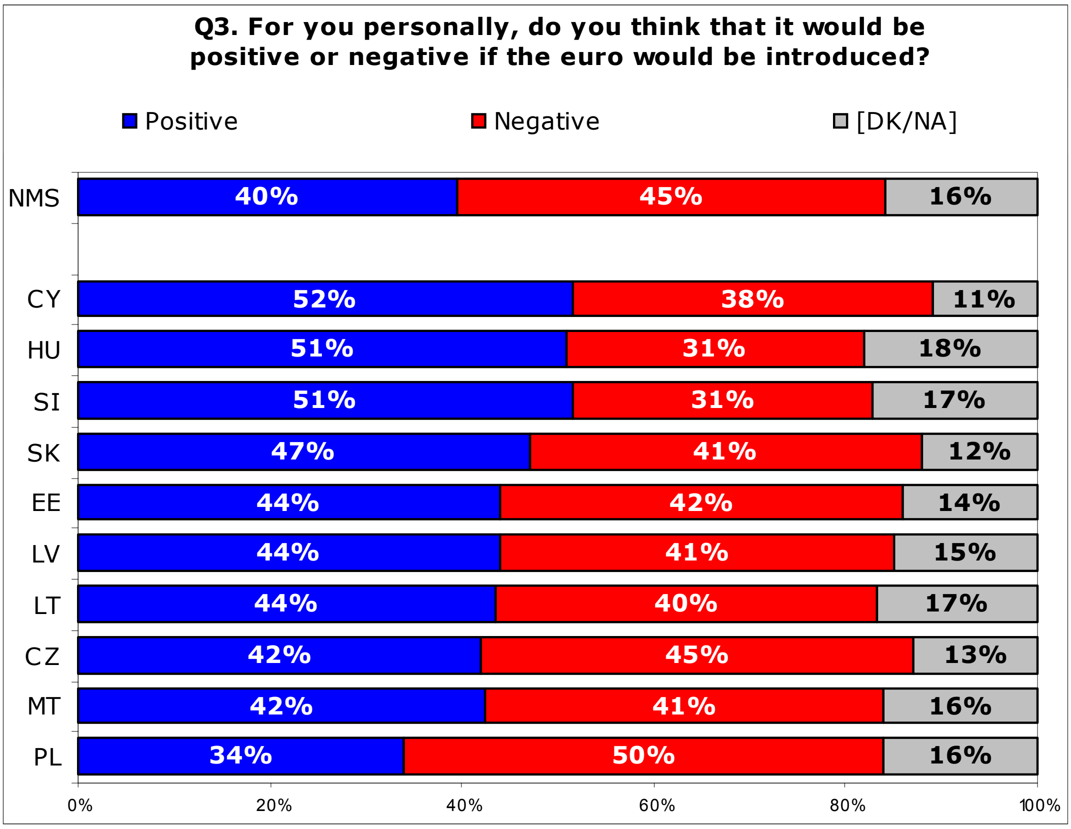


People also appear to be divided as to whether the introduction of the euro will have **positive or negative consequences**. Taking all the newly acceded Member States together, slightly more citizens believe that it will be positive (44%) for their country than the number (41%) who consider that it would be negative.

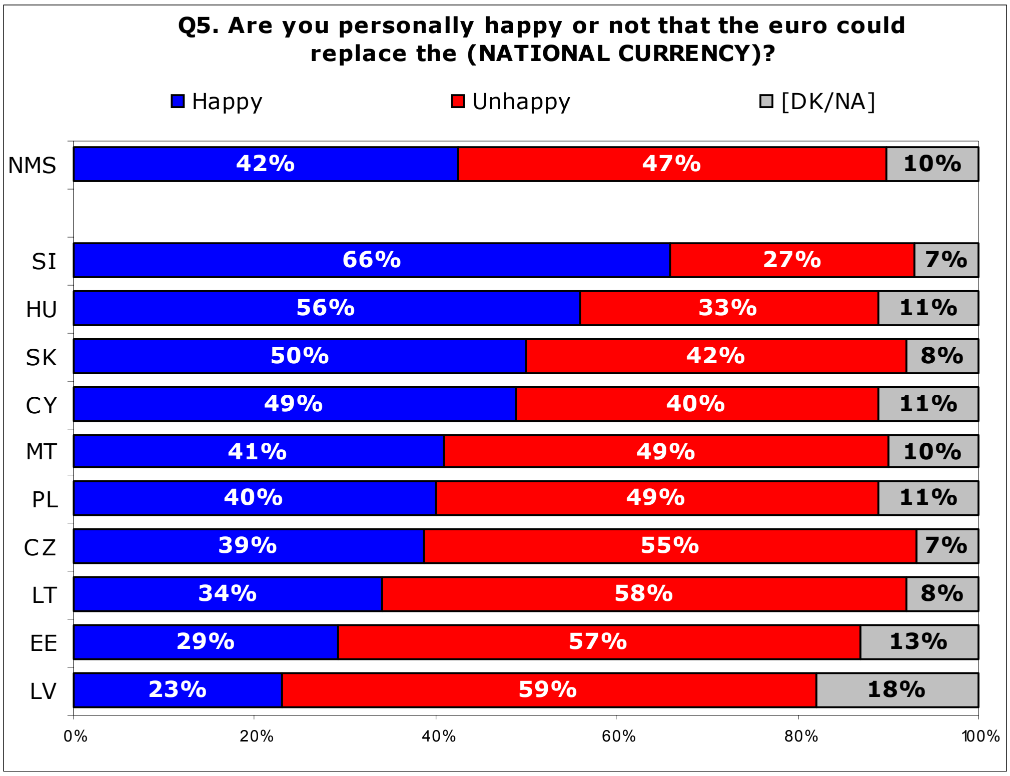
The results by country show that in only two of the ten newly acceded Member States do a clear majority of respondents believe that the introduction of the single currency will have positive consequences for their country (56% in Slovenia and 54% in Hungary). On the opposite side of the graph we can see that the populations of Malta and Latvia have the lowest rates of those who consider it positive (respectively 35% and 38%).

Respondents across the region as a whole are divided as to whether the introduction of the euro would be positive or negative for them personally. 40% say that it would be positive for them personally while 45% indicate that it would be negative.

Country results show that Cyprus (52%), Hungary (51%) and Slovenia (51%) all have positive ratings above the 50% mark. Poland is the country with the lowest rate of positive responses, at 34%. Indeed, a majority of Polish respondents believe that for them personally the introduction of the euro would be negative (50%).

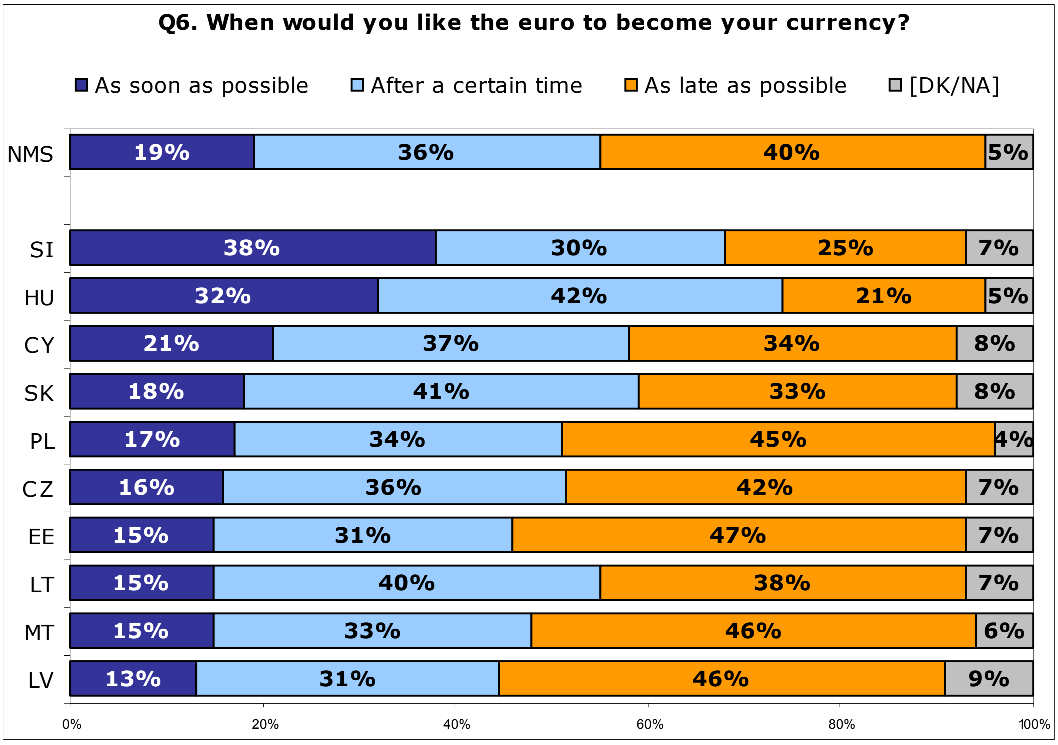


There is also no real enthusiasm for the adoption of the euro: again, citizens are divided on the question of whether or not they are happy that the euro will replace their national currency. Results show that a relative majority of 47% indicate that they would be unhappy. However, the proportion of those who would be happy is nevertheless not negligible since it represents 42% across all the countries surveyed



There are significant discrepancies between the individual countries on this question. Slovenians are by the happiest to contemplate the replacement of their national currency with 66%, in line with their positive attitudes with regard to the effect of the euro on their country and on them personally. In Hungary and Slovakia a majority of respondents would also be happy to replace their national currency.

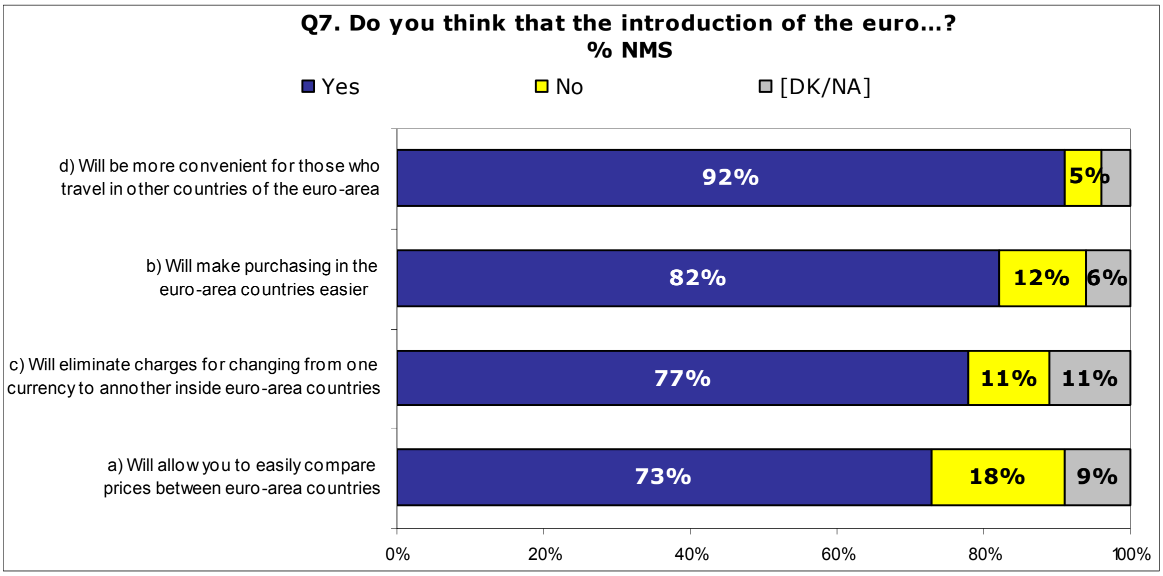
By contrast, the Baltic States have by far the lowest levels of respondents who would be happy with the replacement of the national currency. Latvia has the lowest with 23%, followed by Estonia (29%) and Lithuania (34%).



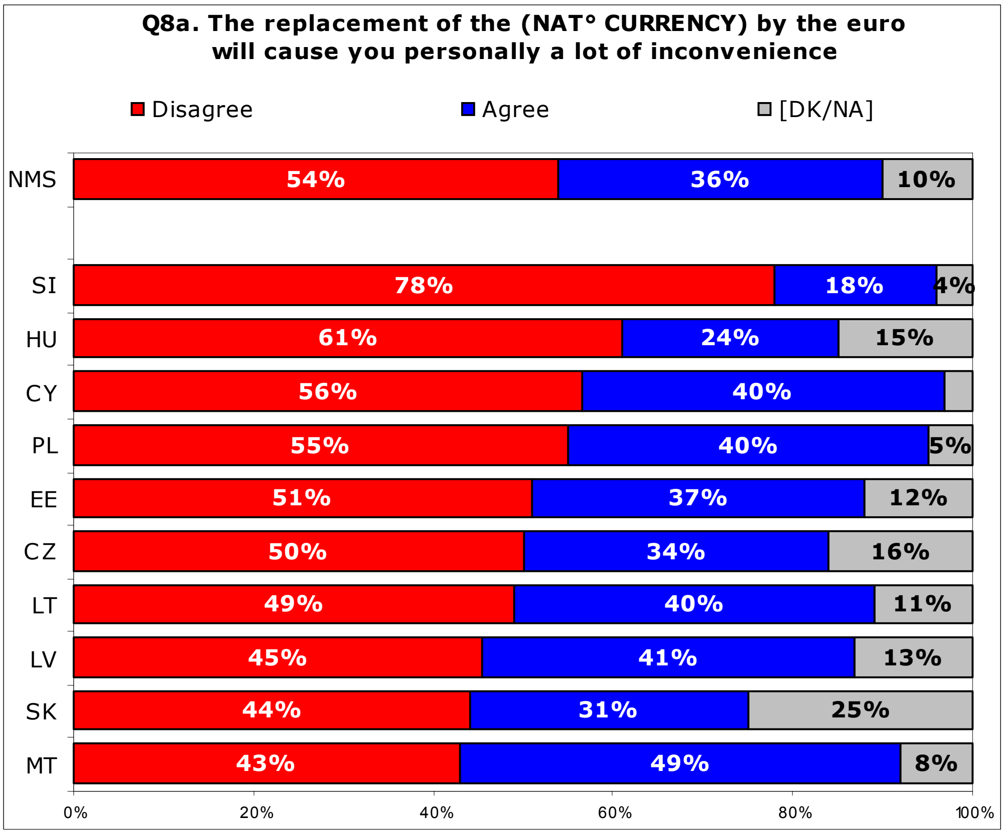
Concerning the **time frame for adopting the euro**, the results for all the newly acceded Member States taken together show us that citizens in these countries are in no hurry to adopt the euro. Indeed, only 19% of respondents in these 10 countries indicate that they would like the euro to become their currency as soon as possible. While 36% respond that the common currency should become their currency after a certain time, a relative majority of 40% believe it should be introduced as late as possible.

Results by country show that Slovenia (38%) and Hungary (32%) have by far the highest rate of respondents wishing to adopt the euro as soon as possible; this is in line with the previous findings that Slovenia and Hungary have the highest level of support for the euro. Latvia has the lowest rate of respondents (13%) wishing to make the euro their currency as soon as possible, and Malta, Lithuania and Estonia follow with 15%. The country with the highest rate of respondents hoping for as late as possible an adoption is Estonia with a rate of 47%.

On the other hand, most citizens in the newly acceded Member States seem to acknowledge the **practical advantages** of the introduction of the euro. A large majority agree that the euro will be more convenient for those who travel abroad (92%), will facilitate purchases within the euro area (82%) and will eliminate currency exchange charges inside the euro area (77%). However, the statement that the introduction of the euro will allow an easy comparison of prices between euro-area countries receives the lowest rate of agreement, although it still represents 73% on average throughout the new member states. These levels of agreement show that the citizens of the new member states are well aware of the positive consequences of adopting the euro.



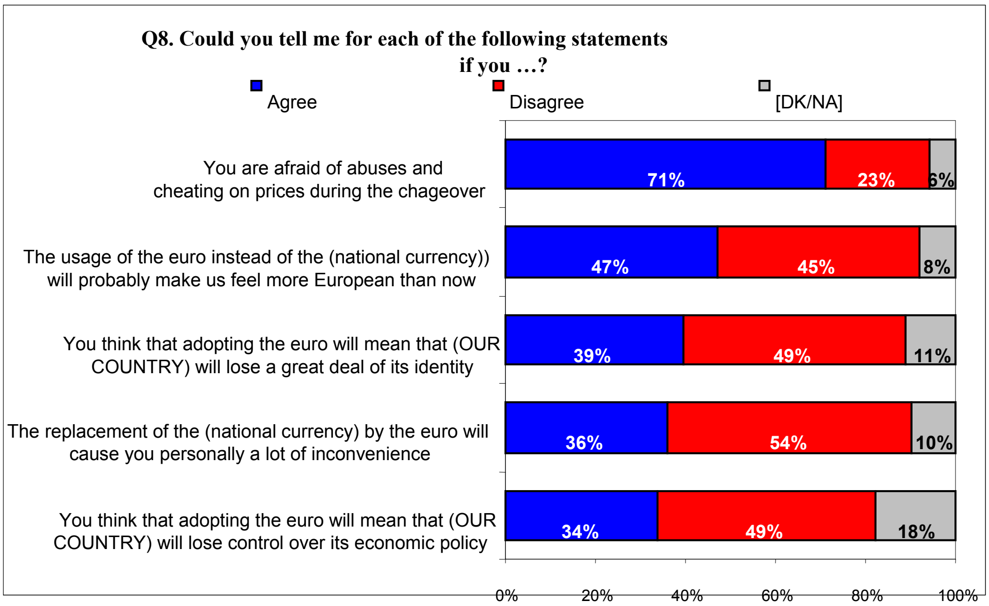
Moreover, a majority of citizens (54%) do not believe the changeover will cause them a lot of inconvenience. It is therefore rather unclear why the rate of support for the adoption of the euro remains low.



Country results nevertheless show certain discrepancies. Few respondents in Slovenia believe that the changeover will cause them much inconvenience (18%). The rate of disagreement with the statement (78%) is 24 percentage points above the average for all new member states surveyed. Hungary (61%) also has a slightly higher rate of disagreement than the 10-country average. Once again, these two countries stand out for their strong approval of a changeover to the euro.

The country that has the lowest rate of respondents disagreeing with this statement is Malta with a rate of 43%. Slovakia and Latvia follow with 44% and 45% respectively.

Among the statements describing the **fears of citizens regarding the changeover to the euro**, it clearly stands out that what citizens (71%) fear most is the risk of abuse and cheating on prices during the changeover. The results by country show that respondents in Poland have by far the strongest rate of agreement with this statement. 83% of Polish citizens are afraid of abuse and cheating on prices during the changeover. Slovenia, by contrast, has a completely different attitude as a clear majority of citizens (64%) disagree with this statement. Hungary is the next most confident with 49%. Lastly, a relative majority of 48% of the population of the ten newly acceded Member States believe the introduction of the euro will cause an increase of inflation in their country. Only 25% believe that it will help to maintain price stability, while just 8% indicate that it will have no impact whatsoever.



The analysis of the results has also shown us that the level of **knowledge of the euro** and the conditions for its adoption is rather low in the newly acceded Member States. For instance, most citizens (57%) are unaware that the adoption of the euro is obligatory. Knowledge of the correct number of euro-area countries is also weak. Only 39% of respondents across all 10 new member states correctly answered 12 EU countries. The rate of don't knows is significant for this question, at 28%.

However, the euro appears to be familiar since most respondents have already seen it (73% for banknotes and 66% for coins) and used it (49% for banknotes and 50% for coins).

	Have you already		Have you already	
	seen…	used…	seen…	used…
	euro banknotes	euro banknotes	euro coins	euro coins
NMS	**73%**	**49%**	**66%**	**50%**
CY	85%	76%	82%	77%
CZ	69%	59%	61%	63%
EE	78%	53%	64%	58%
HU	79%	53%	71%	55%
LV	67%	47%	55%	46%
LT	72%	40%	52%	39%
MT	70%	65%	68%	66%
PL	72%	43%	67%	43%
SK	70%	53%	62%	56%
SI	95%	81%	87%	79%

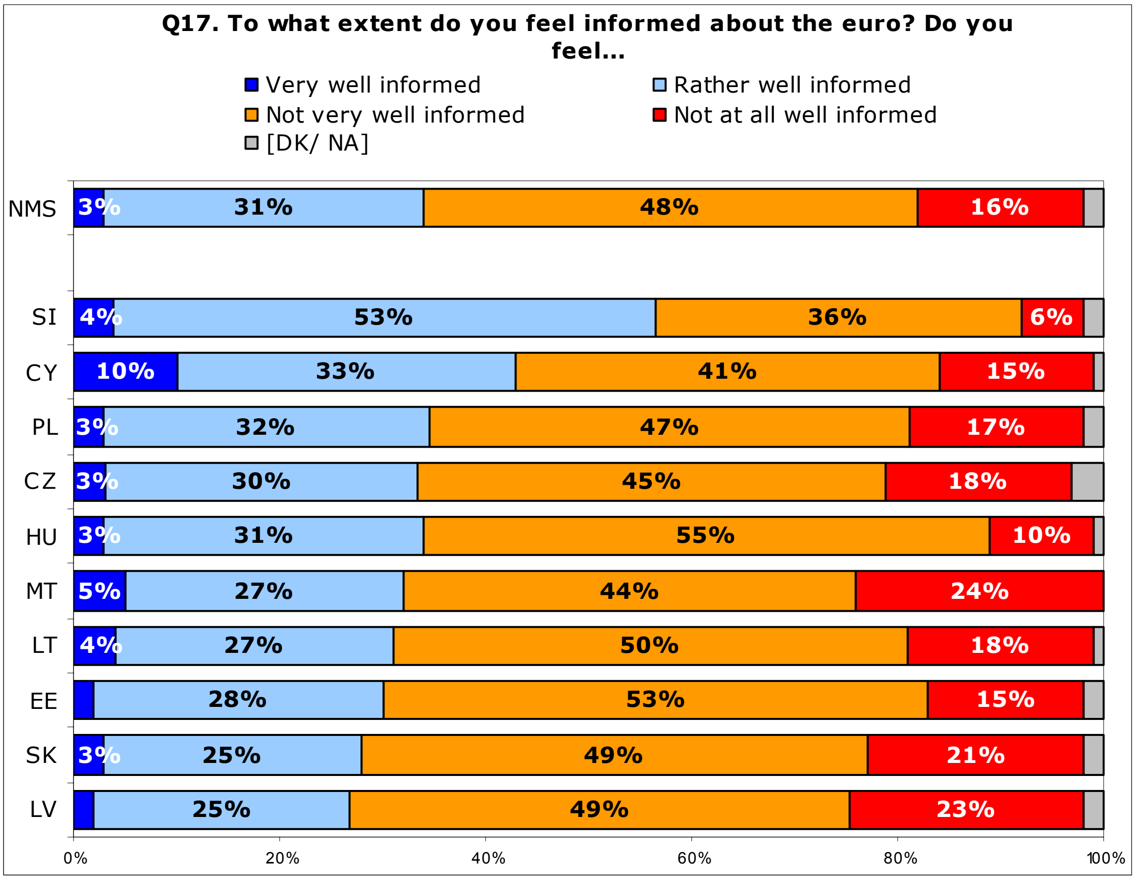
Among the individual countries, we note that Slovenia has by far the highest rate of respondents who have already seen euro banknotes at 95%. Cyprus and Hungary follow with 85% and 79% respectively. Latvia has the lowest rate at 67%, followed by the Czech Republic with 69%. Amongst the 10 new member states, Slovenia has the highest rate of respondents who have used euro banknotes at 81%. This rate is 32 percentage points above the newly acceded Member State average. Cyprus follows with 79%. The countries with the lowest rates are Lithuania (40%), Poland (43%) and Latvia (47%).

As we saw with the euro banknotes, the country results show once again that Slovenia has the highest rate of respondents who have already seen euro coins at 87%. This rate is 21 percentage points above the newly acceded Member States average. Cyprus follows with 82%. The lowest rates are to be found in Lithuania (52%), where just over half of respondents have already seen euro coins. Latvia follows with 55%.

Among respondents in the new member states who have already seen euro coins, half of them state that they have also used euro coins (50%). Again, Slovenia (79%) and Cyprus (77%)

have the highest rates among the individual country results. Lithuania has the lowest rate of usage of euro coins at only 39%. Poland and Latvia follow with 43% and 46% respectively.

When asked how well **informed** citizens are **about the euro**, only a third of respondents feel rather well informed (31%). Those who feel very well informed represent only a very small proportion of the population in the newly acceded Member States (3%). A relative majority of 48% of the citizens claim to be not very well informed, while another 16% indicate that they are not at all well informed. Thus, the proportion of respondents who are not well informed constitutes a clear majority of citizens in the newly acceded Member States, with a total of 64%.



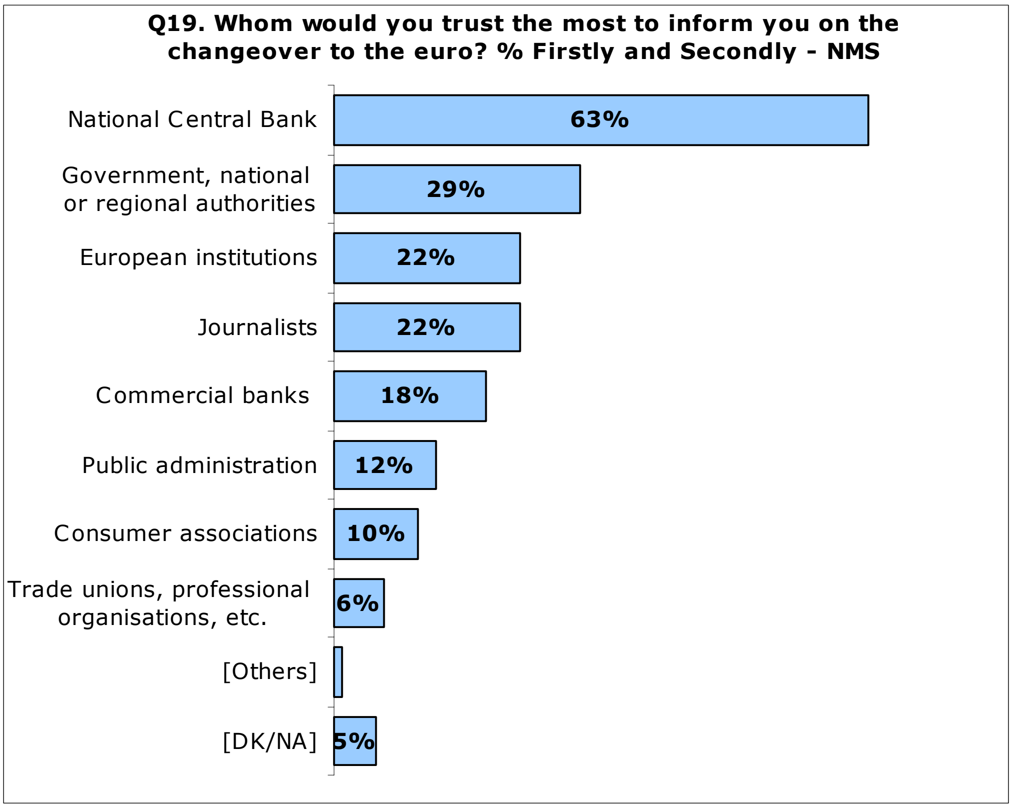
Analysing the results country by country, we note that only in Slovenia do we find a clear majority of citizens who are well informed about the euro, at 57%. The lowest rate of informed respondents can be found in Latvia where only 27% of the population is well informed about the single currency. Slovakia and Estonia follow, with respectively 28% and 30% of well informed respondents.

Results show that citizens would like to receive information about the euro well in advance rather than on the eve of its introduction. 30% of respondents indicate that they would like to be informed as soon as possible, while 24% would prefer to be informed at least a few years before the euro is introduced.

However, some are not in such a hurry to receive information on the euro: 32% would like it at least a few months before the introduction of the euro, 6% a few weeks before and 3% only a few days before.

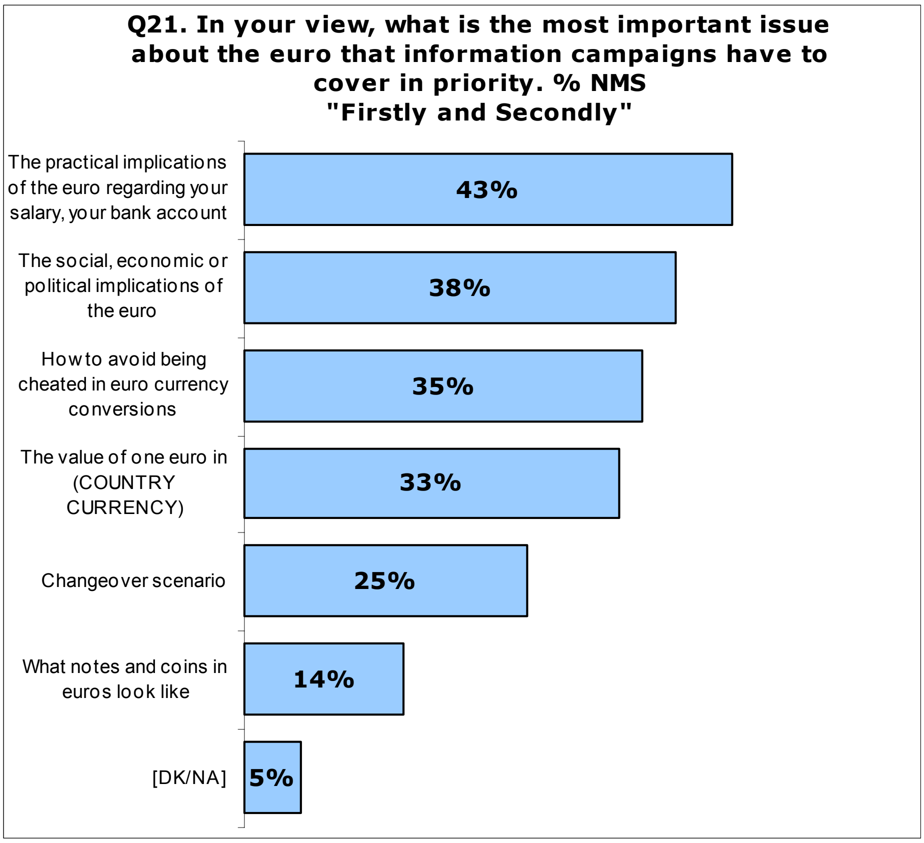
These results show that a majority of citizens throughout the newly acceded Member States seek to be informed far earlier than the day of the introduction of the euro in their country and that there is an apparent demand for more information already today.

The majority of respondents would trust information from their national central bank (63%), putting it far ahead of any other institutions (only 29% for government, national or regional authorities and 22% for European institutions).



With regard to citizens' attitudes to other tried-and-tested information vectors, the survey shows that citizens in the newly acceded Member States find TV information campaigns essential (78%) for preparing themselves for the euro, but also, although to a somewhat lesser extent, radio spots (66%) and information leaflets or brochures (64%).

Most citizens take the view that **information campaigns** should mainly focus on the practical implications of the euro for their salary and bank account. In their opinion, the dual display of prices is the most essential information activity in preparing the population for the euro.



The **socio-demographic analysis** of the results shows that men, young people and educated urban populations are much more in favour of the euro and have a better understanding of the associated issues than do women, the elderly and people with a low level of education living in rural areas.

The overall lesson to be drawn from this survey is that there is no widely held enthusiasm for the euro, but equally no real scepticism. It is interesting to note that the Eurobarometer surveys conducted in 1997 also showed a lack of support for the single currency: 47% of the respondents were in favor of the euro while 40% were against.

There is a clear desire on the part of the citizens in these newly acceded Member States for more information on the euro. Although they are in no hurry to adopt the euro, they would like to be properly prepared for it well before the changeover actually takes place.

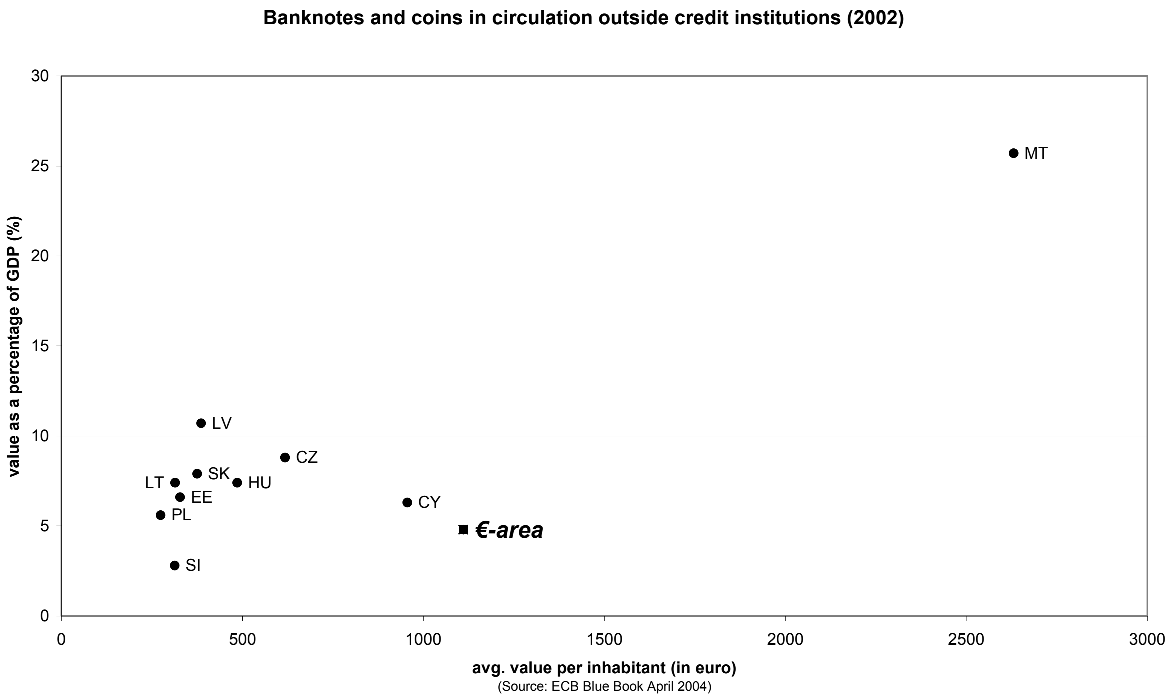
3. MEANS OF PAYMENTS

3.1 Cash versus payment cards

Graph 1 demonstrates a relatively high usage of cash in the newly acceded Member States as compared to the euro area. While the average value per inhabitant is usually lower (between 250 and 500 euro per inhabitant compared to more than 1,000 euro in the euro area), it typically represents a higher share of GDP (between 5 and 10%). This evidence is confirmed by further statistical data, which indicate that the use of cards is comparatively smaller than in the euro area, while cards are moreover primarily used for cash-related operations such as the withdrawal of cash from ATMs.

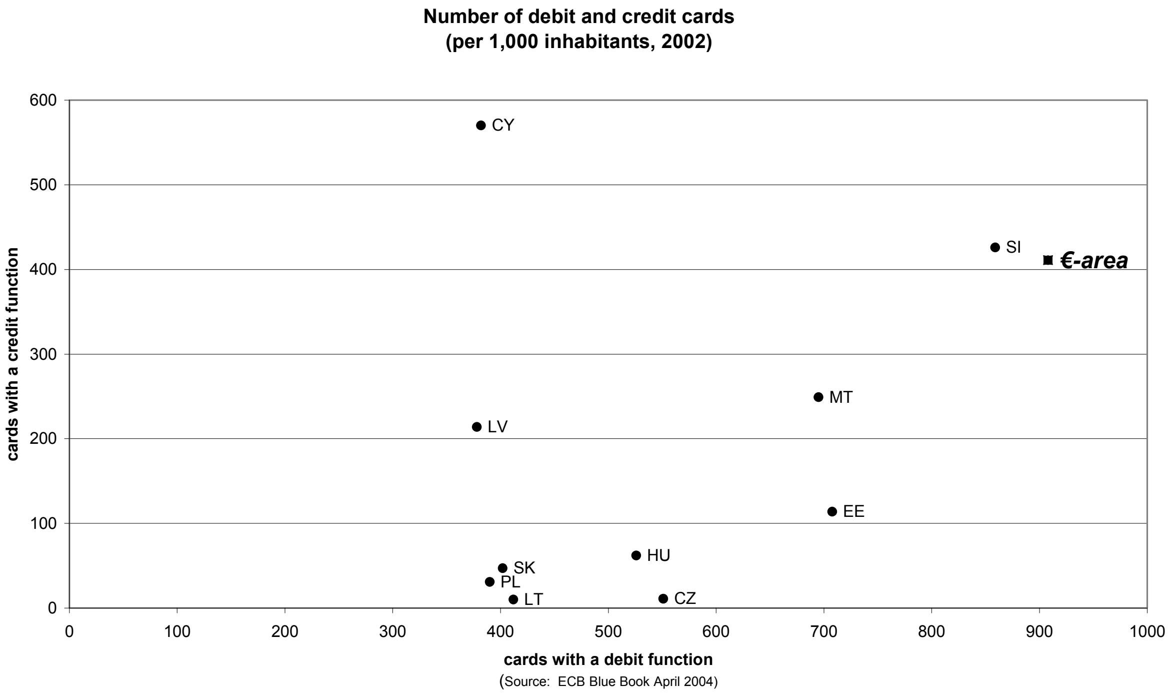
This evidence indicates that the cash changeover will represent an even higher share of the overall changeover effort than it did for the current euro-area countries.

Graph 1



Statistics on the number of debit and credit cards (see Graph 2 below) point to a relatively high use of cards with a debit function (at least 400 cards per 1000 inhabitants), combined with a much smaller use of credit cards (less than 100 cards per 1000 inhabitants in most countries).

Graph 2

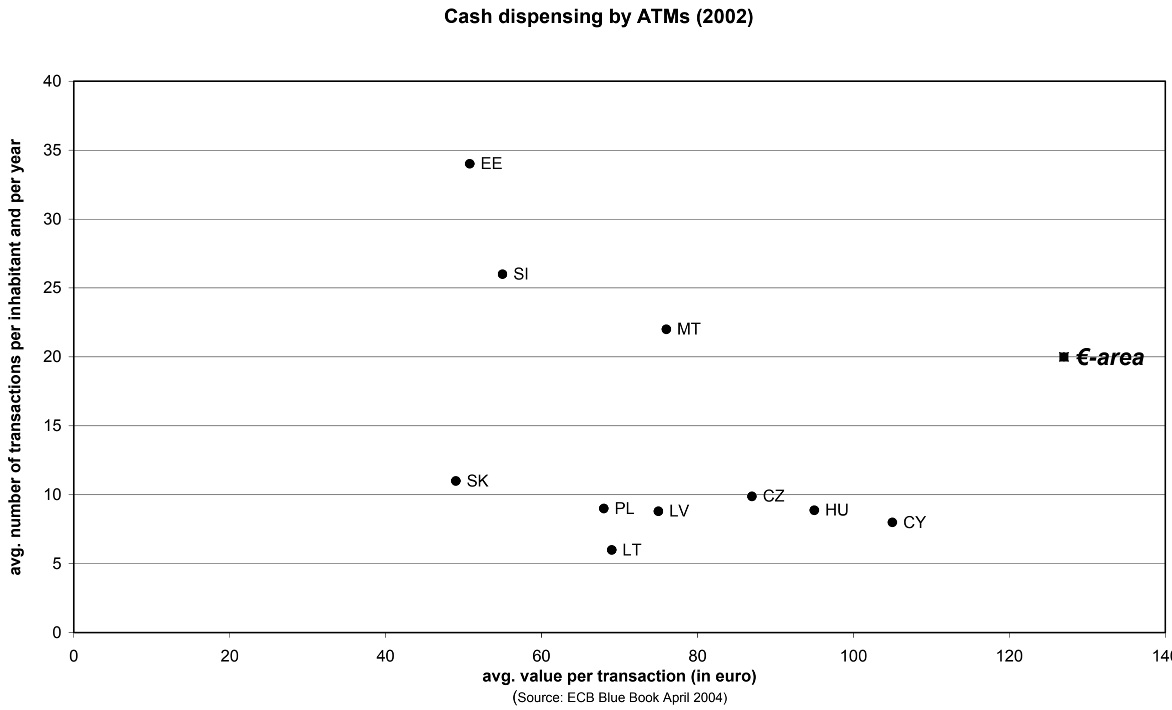


3.2 Number and value of ATM and POS transactions

The comparison between Graphs 3 and 4 demonstrate clearly that debit cards are primarily used at ATMs (cash withdrawal) and to a much lesser extent for POS-related transactions (generally less then 5 operations per year and per capita). The intensive use of cards in Estonia, both for cash withdrawals (35 operations per year and per capita) and for POS operations deserves to be mentioned, while the figures in Slovenia also point to intensive card usage.

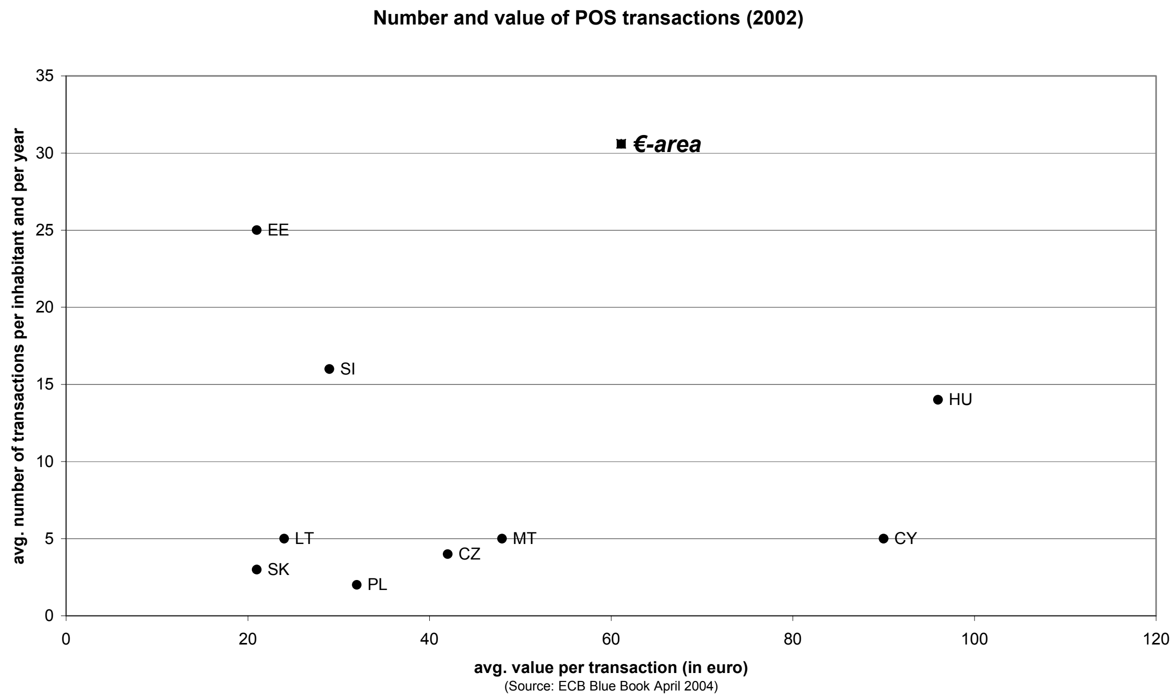
As regards cash dispensed by ATMs (see Graph 3 below), the main difference with the euro area resides in the number of transactions, rather than in their average value. The results again point to a high use of cash in the newly acceded Member States. In combination with Graph 5, these results show that the lower number of transactions is largely explained by the lower number of ATMs and hence by the lower geographical coverage of these machines compared to the euro area (see Graph 5).

Graph 3



The statistics on POS transactions (see Graph 4 below) show a similar picture i.e. a very low number of transactions in many countries (CZ, CY, LT, MT, SK, PL), combined with an average value per transaction which is fairly similar to, although usually lower, than that in the euro area. Here again, Graph 5 shows that the (much) lower number of POS terminals constitutes the main underlying reason as the POS-network is still relatively small although expanding.

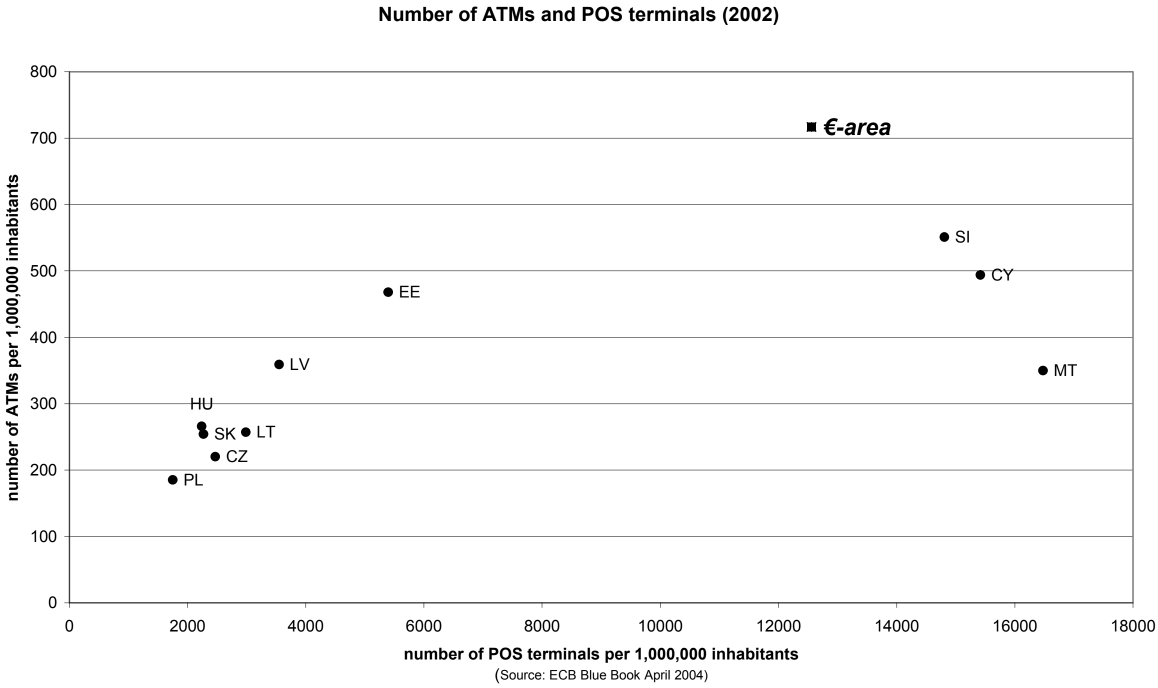
Graph 4



3.3 Number of ATMs and POS terminals

The statistics on the number of ATMs and POS terminals are consistent with the low number of transactions in the previous graphs. The preference for cash is again illustrated by the (relatively) high number of ATMs compared to POS terminals. While the latter are obviously much more numerous in absolute terms, they are clearly under represented in comparison with current euro-area averages and help to explain why cash continues to play such an important role.

Graph 5

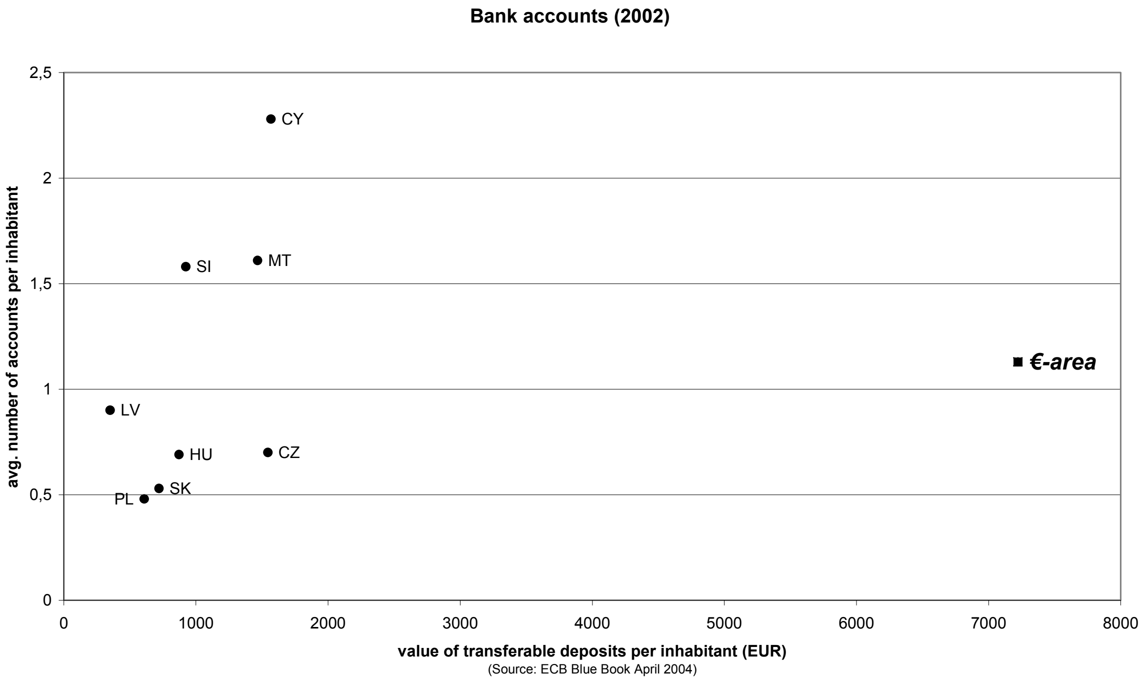


3.4 Bank accounts

Graph 6 indicates that the number of accounts per capita in the newly acceded Member States is broadly similar to (or higher than) that of the euro area (approximately one account per inhabitant on average). In all countries, however, the average value of transferable deposits is considerably lower than in the euro area, in fact consistently below 2,000 euro, compared to more than 7,000 euro in the euro area.

The important number of accounts points to a significant logistical challenge for the banking sector in the newly acceded Member States, particularly if the entire changeover will be concentrated on a very short period and conceivably even without any transitional period ("big bang").

Graph 6



4. AUTOMATIC VENDING MACHINES

While few statistics are available on the newly acceded Member States, they all point to a very low number of machines. Hungary appears to be the country with the highest number of machines (22,400), while other countries have considerably fewer: the Czech Republic (12,000), Poland (7,000) and Slovakia (6,750). This should be compared to a total of around 2,200,000 machines in the euro area (October 2001).

The changeover of vending machines in the newly acceded Member States will definitely constitute a much smaller challenge than was the case in the present euro area. The vending sector was one of the most affected by the changeover and in some cases it took many weeks for technicians to adapt the machines.

The preparation of the adjustments will moreover be facilitated by the fact that euro coins are now freely available for testing purposes, which was not the case before January 2002. At the time, special test centres had been set up in order to allow the vending industry to run test programmes with the new coins in order to adjust the coin validator mechanisms.

5. THE COMMISSION'S INVOLVEMENT IN THE CHANGEOVER PREPARATIONS

The Commission's main contribution consists in bringing together the relevant decision- and policy-makers on a regular basis in order to allow an exchange of views and information in general.

5.1 The "PAN-II"

The Public Administrations' Network (PAN) was originally established in 1996, after the Madrid European Council in December 1995 decided the key elements of the changeover scenario for the countries adopting the euro area in the first wave. The PAN appeared to be an extremely efficient forum for discussion and exchange of best practices among the various officials responsible for a successful changeover in their respective countries. Moreover, many rules and practices were discussed and on many issues it was eventually decided to adopt a common approach. The PAN met 21 times between June 1996 and February 2002, at which point the network was dissolved after the cash changeover had been successfully implemented.

The network was re-established in June 2004 (as PAN-II) and met twice in the course of 2004. It is composed of representatives of the pre-in countries. The euro-area countries, as well as representatives of specific sectors, are invited on a case-by-case basis to communicate relevant experience on specific topics or aspects of the changeover. The Commission chairs the PAN meetings, while the ECB also takes part systematically.

5.2 The "DIR-COM"

The group of "Directors of Communication on the euro" brings together the communication Directors of the finance ministries and central banks of the 25 Member States, the candidate countries and the European Central Bank, as well as representatives of the European Commission.

The DIR-COM meetings were originally launched in 1997 and were limited to the Directors of Communication from the finance ministries of the different Member States and to the Commission. The group was expanded in mid-2000 to include representatives of the national central banks and the ECB. The meetings took place on a quarterly basis and were chaired by the Commission. The grouping has played a major role in the implementation of the PRINCE programme (priority information programme) on the euro, enabling information to be exchanged and information and communication campaigns on the euro to be co-ordinated.

The DIR-COM was re-launched in December 2003 and extended to all 25 Member States and the 3 candidate countries. The DIR-COM aims at co-ordinating the communication activities between the Member States, the European System of Central Banks and the European Commission. It plays a central role in defining and implementing the information and communication strategy on the euro and EMU and moreover constitutes a forum for exchange of experience and best practices.

5.3 The "PRINCE" Programme

The PRINCE (priority information) programme is intended to provide EU citizens with information on certain priority topics relating to the Union's policies.

The Commission has so far concentrated on four priority information topics: enlargement, the future of the Union, the area of freedom, security and justice, and the euro. It has also obtained Parliament's and the Council's agreement for a fifth PRINCE topic in 2004 – the role of Europe in the world – in order to meet the concerns of the Union's citizens more fully.

The PRINCE Programme on the euro and EMU started in 1996 when the Commission concluded five partnership agreements for a joint annual programme on information on the EMU. In 1997 and 1998, additional Member States signed agreements. In 1999, all twelve euro-area countries, plus Sweden, had signed an agreement.

The activities under these agreements were completed in mid-2002, with a total amount of over 126 million euro committed from Prince Programme funds over a period of six and a half years, complementing the Member States' contribution reaching 230 million euro. Thus, 356 million in total was spent under the Prince programme. In earlier years, the Commission's contribution invariably amounted to the maximum 50 per cent of the cost of the joint programmes. As the information campaigns intensified, and Member States made more budgetary resources available, the Community's contribution gradually fell as a percentage of the total, while staying broadly the same in real terms.

The partnership process was underpinned by the signature of a Memorandum of Understanding between the Member State, the European Commission and the European Parliament. Funding agreements, known as Conventions, were subsequently signed with each Member State, generally for a twelve-month period. The Member State, the Commission and the European Parliament set up a "co-ordination group" which was to meet at least once a month in order to discuss financial arrangements and the overall content of each action. The Community co-financed agreed communication activities, without being directly involved in their implementation.

In a number of resolutions[2], the European Parliament considered that "the information campaign on the introduction of the euro has been successful in terms of European Union information and communication" and that "top priority information and communication should focus on issues close to the everyday lives of citizens (topics such as […] the euro)".

In a recent Communication from the Commission[3], the information and communication strategy on the euro and EMU was redefined. The aim of the strategy is to increase public knowledge within and outside the EU on the working of EMU and to contribute to a smooth changeover in those Member States which are preparing for the adoption of the euro.

Nowadays, the implementing provisions have evolved. A new Memorandum of Understanding is being proposed to the Member States. This reference text, approved by Parliament and the Council, is a purely political memorandum, resting on a voluntary basis, between the different parties in question for a period of 4 years. The implementation of communication measures will be based on a partnership agreement signed by the Commission and the Member States, which consists in the sharing of an agreed communication plan and each of the parties' respective resources and role. This partnership requires the development of co-financing agreements which must comply with the provisions of the new Financial Regulation. Three types of partnership can be offered to the Member States: strategic partnerships, management partnerships and ad hoc partnerships. In some cases, the Commission could become actively involved in the development of communication activities in the Member States.

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2 European Parliament Resolutions of 13 March 2002 on "the Commission communication on a new framework for co-operation on activities concerning the information and communication policy of the European Union" and of 10 April 2003 on "an information and communication strategy for the European Union".

3 Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions "on the implementation of an information and communication strategy on the euro and Economic and Monetary Union" (COM (2004) 552 final), 11/08/2004.

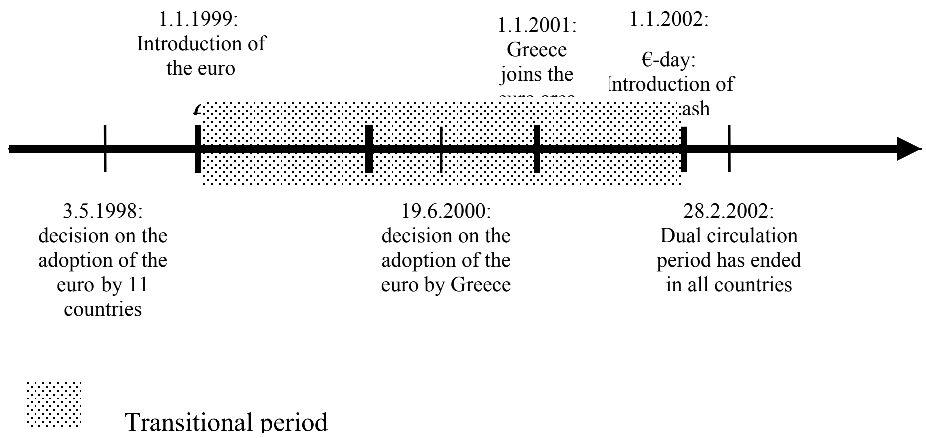
ANNEX 1

THE INTRODUCTION OF THE SINGLE CURRENCY IN THE CURRENT EURO-AREA COUNTRIES

1. THE MADRID SCENARIO

In December 1995 the Madrid European Council chose the name of the single currency and decided on the key elements of the changeover scenario. Among other things, it was decided to introduce a three-year transitional period between the introduction of the euro as a single currency and the introduction of euro banknotes and coins. During this period the principle of 'no compulsion, no prohibition' was applied: economic actors had the option of carrying out transactions in the euro unit, but were under no obligation to do so. The transitional period was followed by a dual circulation period, during which both euro cash and the former national currency banknotes and coins had legal tender status.

Graph 1: Euro changeover scenario



2. THE TRANSITIONAL PERIOD (1999-2001)

On the eve of 31 December 1998 the conversion rates between the euro and the currencies of the eleven countries which had qualified for the adoption of the single currency were irrevocably fixed. On 1 January 1999, the euro was introduced as the single currency in all these countries and, from this moment onwards, their national currencies had ceased to exist. Nevertheless, national banknotes and coins remained in circulation, but they merely represented different non-decimal subdivisions of the euro.

During the transitional period, the euro unit could only be used in scriptural form but not for cash payments. Consumers and companies had the possibility of opening accounts denominated in the euro unit, and of writing cheques or making credit transfers in the euro unit. However, at the beginning of the transitional period this option was used only to a limited extent. By the end of the first quarter of 2000 only 2.4% of the payments were carried out in the euro unit.

Very few accounts (less than 1%) had been converted into the euro unit at this point even though banks usually offered the possibility of carrying out certain transactions (e.g. transfers) either in the national currency unit or the euro unit. In addition, banks were obliged to automatically convert incoming payments into the proper currency unit.

By comparison, the dual display of prices was more widely used. In the first quarter of 2000 between 30% and 80% of the retail sector in the different countries were applying dual pricing. The euro was also visible as a unit of account in euro-area financial markets since prices of stocks and bonds were exclusively quoted in euro.

The use of the euro unit gained momentum towards the end of the transitional period. In the second quarter of 2001, the share of euro payments rose to 7.8% while 7.9% of businesses' accounts were kept in the euro unit. Moreover, 73% of the euro-area banks opted for an early conversion of bank accounts in the course of the second half of 2001.

3. THE EURO CASH CHANGEOVER

The single currency became much more tangible on 1 January 2002, when euro banknotes and coins were brought into circulation. This event marked the beginning of a new era for 305 million people. Ten years after the signing of the Maastricht Treaty euro-area citizens were eager to hold the single currency in their hands. From 31 December at midnight onwards, many citizens started queuing in front of ATMs (automated teller machines or cash dispensers) in order to be among the first to handle the new currency.

Frontloading and sub-frontloading of cash

Euro banknotes and coins had been supplied to banks and retailers prior to 1 January 2002 with a view to facilitating the changeover, under the strict condition that they could not be brought in circulation before 2002. In some countries, this frontloading (delivery to banks) and sub-frontloading (delivery from banks to retailers and other companies) started as early as September 2001 depending on national changeover plans. The packaging of banknotes and coins was chosen with a view to meeting the needs of banks and retailers, and rules providing for delayed debiting of the delivered cash were applied in order to encourage early ordering of cash. As €-day approached, a total of 6 billion banknotes (40% of total production) and 37.5 billion coins (73.5% of total production) were distributed to banks, retailers and cash-in-transit companies in advance of €-day. The public had the opportunity to familiarise themselves with the euro coins from mid-December onwards, when Member States started selling 150 million starter kits containing a total of 4.2 billion euro coins, corresponding to 14 coins per capita on average.

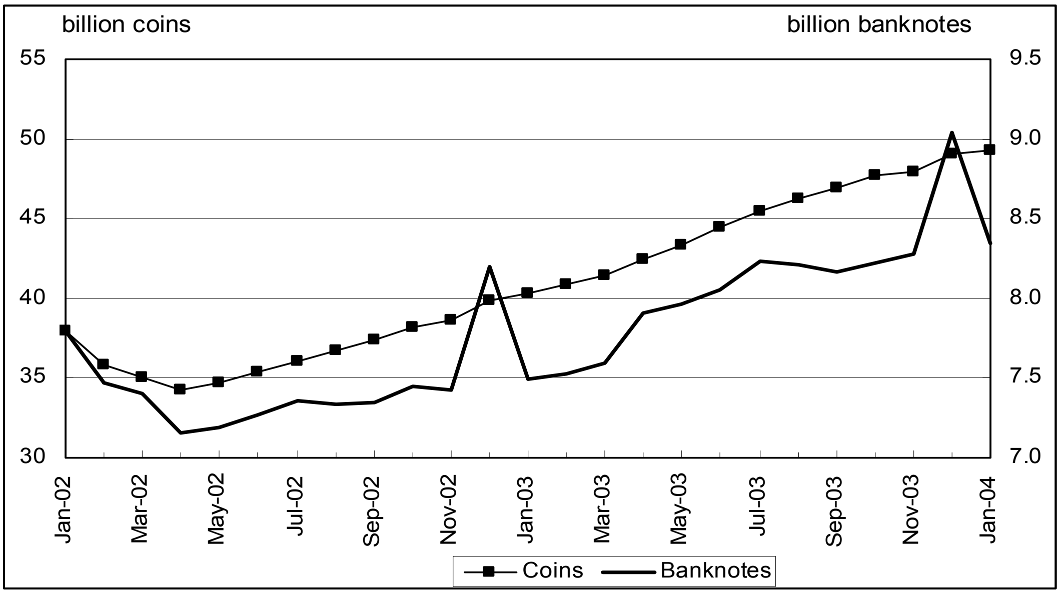
Euro cash enters into circulation

Approximately 7.8 billion banknotes (24 per capita) and 38 billion coins (134 per capita) were in circulation on 1 January 2002 and distributed mainly via three channels: ATMs, withdrawals from banks and post offices and change given in shops. The distribution via ATMs also proved to be an extremely efficient distribution channel, because ATMs were adapted very swiftly and were used much more frequently for cash withdrawals than normal during the first two weeks of January. On average 80% of the ATMs had been fully converted to the euro by 1 January and by 4 January all ATMs in the euro area were exclusively dispensing euro banknotes. The retail sector also played an important role since many customers spent their remaining legacy notes in shops while retailers had committed themselves to give back change exclusively in euro.

The banknotes distributed in the euro-area countries all have the same technical characteristics and bear the same designs. In contrast, the euro coins bear a common European design on the reverse and a distinct national face on the obverse. The different national sides have been a source of interest from the very beginning. As all euro coins have legal tender status throughout the euro area, coins started migrating across borders immediately.

In most countries, the national currency banknotes and coins remained legal tender until the end of February 2002, while some countries decided to shorten the period of dual circulation even further. The bulk of the legacy banknotes was returned to the central banks within a few weeks, mostly via banks and retailers. By 21 January more than 50% of the national banknote circulation (in value) had been returned, and by mid-February, only six weeks after the changeover, almost 80% of national banknotes had been sent back.

Graph 2: Euro banknotes and coins in circulation

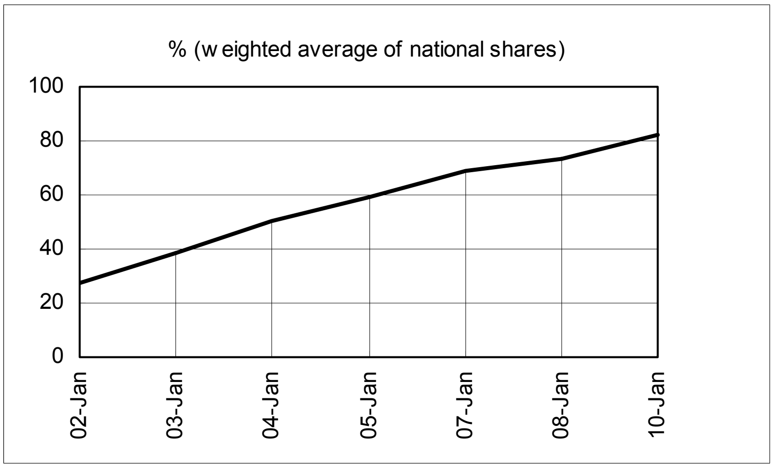


Source: ECB

Graph 2 shows that the circulation for both banknotes and coins subsequently decreased up until April 2002. This demonstrates, notably, the quality and extent of the frontloading and sub-frontloading operations, since some cash started to flow back because initial volumes frontloaded or put into circulation had exceeded initial demand in certain instances. The December figures for 2002 and 2003 indicated a steeper increase, which is typically linked to the Christmas shopping period.

The speed of the changeover is further illustrated by the evolution of the share of euro cash payments, which increased spectacularly. On average the euro-area share of cash payments (defined as both payments and change given in euro) stood at approximately 27% on the evening of 2 January as many consumers first spent national currency that they had left over. On 4 January already half the cash payments were made in euro. On 10 January some 82% of cash transactions were made in euro (see Graph 3). This share subsequently rose further, and after three weeks virtually all cash payments in the euro area were carried out in euro.

Graph 3: Euro cash payments as a share of total cash payments in early January 2002



Source: Finance Ministries, supermarkets, (Commission calculations)

Vending machines were also adapted quickly to the euro. By 10 January approximately 75% of vending machines were accepting euro cash. By the end of January the share of adapted machines stood at more than 90%.

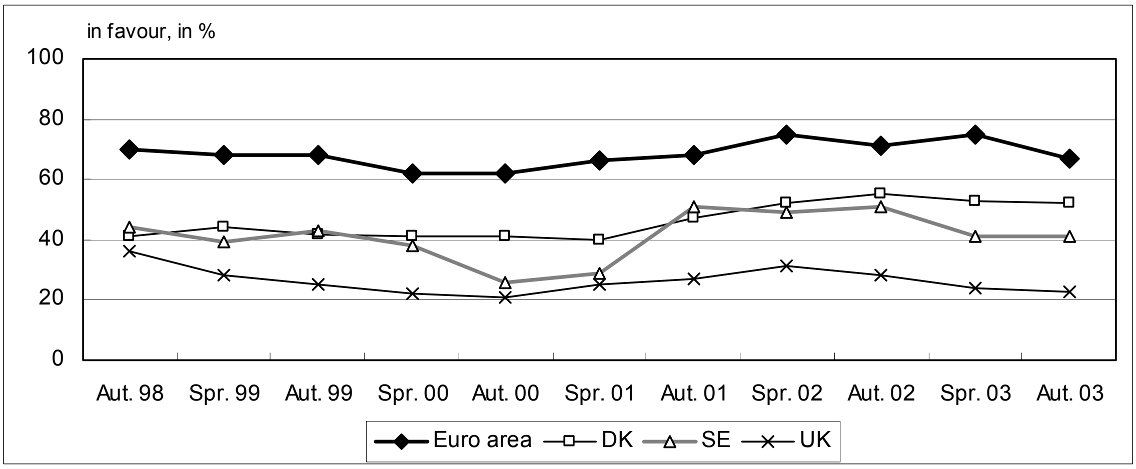
4. PUBLIC PERCEPTION OF THE EURO AFTER THE INTRODUCTION OF BANKNOTES AND COINS

Two-thirds of euro-area citizens support the euro

The public's support for the euro has been examined twice a year since the autumn of 1998. Analysis of the entire survey period shows that the rate of approval has remained broadly stable over the last five years. In spring and autumn 2000 the euro area saw the lowest support for the euro (62%), while the highest result (75%) was reached after the introduction of the euro cash.

The approval rates in the three pre-in countries have always been significantly lower than in the euro area. Only in Denmark a slight majority (52%) of the respondents in November 2003 supported the single currency, while in Sweden (41%) and in the United Kingdom (23%) only a minority was in favour of the introduction of the euro. The long-term analysis also exhibits differences among the pre-in countries. In Denmark the support for the euro has tended to be more stable than in Sweden.

Graph 4: Support for the euro



Source: Standard Eurobarometer 60, published in December 2003

Many consumers still think in national currency

More than two and a half years after the introduction of euro banknotes and coins, many consumers still think in their former national currency. The share of those calculating in euro when purchasing goods is rising, but the mental conversion of euro-area citizens is far from complete.

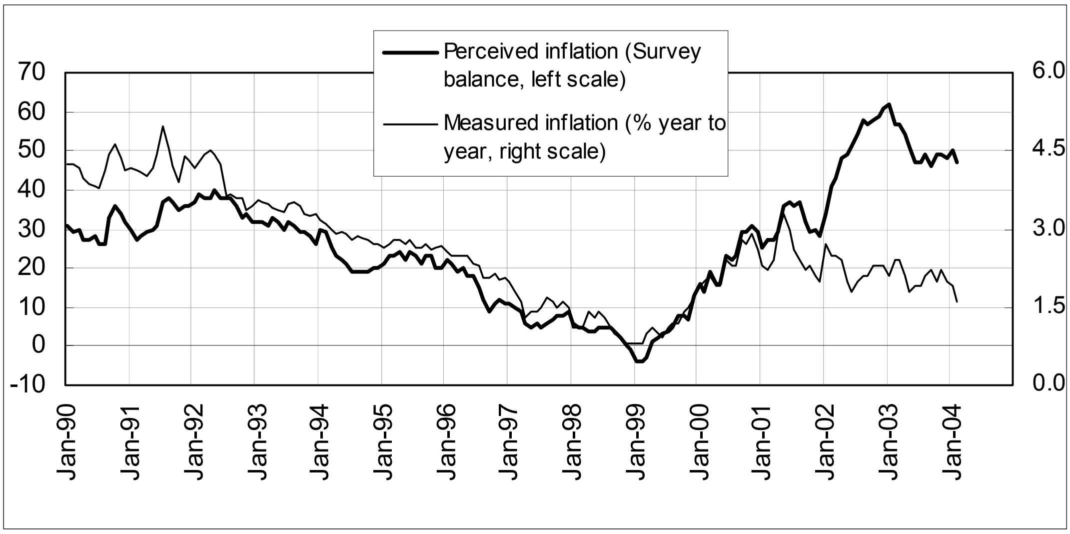
In November 2003, 46% of the respondents said that they most often count in euro when doing day-to-day shopping, while 30% still most often think in national currency. Compared to the year before, this represents a moderate rise in the proportion of people who have psychologically switched to the euro. With respect to large value purchases (e.g. a house or a car) the picture is different. The majority (54%) of euro-area citizens still count mentally most often in national currency, while only 16% said they most often thought in euro. This figure indicates a low degree of adaptation, but nevertheless represents a rise from the year before (12.5%).

The limited degree of adaptation is also reflected by findings on citizens' preference for keeping dual displays of prices in shops. By November 2003, 46% of the euro-area interviewees indicated that they would prefer shopkeepers to continue with the dual display of prices. This rate varies widely from country to country – possibly as a result of the different euro conversion rates that were applied. In most euro-area countries a majority of the respondents no longer sees the need for keeping dual displays of prices, while in the other countries the majority prefer to keep them.

The impact of the changeover on inflation (and on citizens' perception thereof)

Public perception of price increases triggered by the introduction of the euro constitutes a continuing source of concern in certain countries, notably where the media have abundantly reported on this issue. Some consumers thus continue to associate the changeover with price increases. In November 2003, on average 89% of the euro-area respondents believed that prices had been converted to the detriment of the consumers. This perception is at odds with the results of statistical analysis, which indicates that the likely contribution of the euro cash changeover to the 2.3% annual average euro-area inflation rate registered in 2002 was in the range of 0.12%-0.29%. The price rises in the service sector (cafés, restaurants, repair shops, hairdressers) are most frequently mentioned, and they were indeed above average. The lack of experience of judging euro prices may also have contributed to the large gap between actual and perceived inflation (see Graph 5).

Graph 5: The perception of inflation in the euro area



Source: Commission services

ANNEX 2

RECENT CURRENCY CHANGEOVERS IN THE NEWLY ACCEDED MEMBER STATES

Czech Republic

Following the peaceful dissolution of the Czechoslovak Federation in 1993, the State Bank of Czechoslovakia was dissolved and the assets and liabilities divided between the Czech National Bank and the National Bank of Slovakia. The Czechoslovak koruna was replaced by two separate currencies: the Czech koruna and the Slovak koruna. The value of both currencies was initially identical to the old Czechoslovak koruna, although they subsequently evolved independently.

Estonia

Eesti Pank recommenced its operations as an autonomous central bank in 1990. In June 1992 the Estonian kroon was declared the sole legal tender in circulation and Eesti Pank became the sole authority in charge of monetary policy in Estonia. Within three days, each Estonian resident was entitled to exchange 1500 roubles for kroons at a rate of 10 roubles for 1 kroon. In 1992 a currency board was established with the deutsche mark as the anchor currency (EEK 8 = DEM 1). In 1999, the euro replaced the deutsche mark as the anchor currency. The Estonian kroon joined the Exchange Rate Mechanism II (ERM II) on 27 June 2004. The central rate was set at 1 euro = 15.6466 kroon.

Latvia

The Bank of Latvia became an autonomous central bank in September 1991. The Latvian rouble was introduced in May 1992 as an interim currency. On 1 March 1993 the national currency, the lats, was introduced at a rate of 1 lats = 200 Latvian roubles. The period of dual circulation, during which both the lats and the Latvian rouble were considered legal tender, came to an end on 18 October 1993, when the lats became the sole official currency in Latvia.

Lithuania

The Bank of Lithuania was re-established in March 1990, while Lithuania continued to be in the rouble zone from 1990 to 1992. The talonas was introduced in 1992 as a temporary currency, and succeeded by the litas in 1993. A currency board based on the U.S. dollar was established in 1994. In February 2002, the euro replaced the dollar as the reference currency. The litas joined the Exchange Rate Mechanism II (ERM II) on 27 June 2004 at a central rate of 1 euro = 3.4528 litas.

Poland

In July 1994, the Act on the revaluation of the currency put into circulation a new Polish monetary unit, the (new) zloty, to be exchanged for the old zloty at a rate of 1:10,000. The old zloty continued to be legal tender until the end of 1996 (apart from the notes withdrawn from circulation before 1 January 1995) and will continue to be exchangeable at the National Bank of Poland until the end of 2010.

Slovenia

Following the break-up of the former Yugoslavia, the central bank of the Republic of Slovenia was established in June 1991 and in October of that same year the Slovenian tolar was introduced to replace the Yugoslav dinar. On 27 June 2004, the Slovenian tolar entered the Exchange Rate Mechanism II (ERM II). The central rate was set at 1 euro = 239.640 tolar.

Slovakia

The National Bank of Slovakia was established on 1 January 1993, following the dissolution of the Czechoslovak Republic. The Slovak koruna replaced the Czechoslovak koruna at a rate of 1:1.