

Prof. Dr. h.c. Christa Randzio-Plath

Former President of the Economic and Monetary Affairs Committee of the European  
Parliament

## Conference

«EMU Governance and Euro Changeover: Slovenia on the  
path to the adoption of the euro»

Ljubljana, 17 March 2006

Session 3: Introducing the euro in practice

Some best practices and lessons from the previous  
changeover

## **The introduction of the Euro**

Slovenia will pass the convergence test on the 16<sup>th</sup> of May 2006. You all live already with the euro. The double display already is reality. And in difference to 1999 the Slovenians all know the euro coins and notes. There is no unknown landscape to discover as it was for a lot of European citizens before the introduction of the euro. So you are in a more comfortable situation. Nevertheless the introduction of a new currency is a difficult transition from the political psychological perspective. You need new references in order to judge. Even as we do start a monetary union and not a monetary reform. Therefore it is necessary to recall what the benefits of the euro were, namely price stability, abolished transaction costs for cross-border business and hedging costs against the risk of fluctuations of the exchange rates, low mortgage rates, easier travelling and historically low interest rates. The single currency contributes to stimulate growth because of greater wage and price transparency, increased competition in favour of the consumer getting the best products at the lowest prices and a more open employment market. Billions of Euros are saved annually by enterprises and consumers since the introduction of the single currency saved transaction and hedging costs. The euro was never only a monetary project: it was and is the most ambitious and most successful political project within the European integration and pan-European. In historical terms it is difficult to find similar instances of building a single currency area without a currency reform or wars. The euro was and is a powerful driver of European integration as well as a means of reaching the goals of our Union even in times of crisis. Imagine the euro introduction would not have taken place: even higher prices for oil and raw material, higher inflation rates and distortion within the Single Market without a single currency on would have been the result. Not only is the euro a symbol of a common identity and shared values, but it can act as a stimulus to further integration and cohesion by proving that if Member States act together in a decisive manner, citizens can expect widespread and long-lasting benefits even if not all results have yet been delivered. But it was crystal clear: the loss of national sovereignty in monetary policy led to gains by the Eurozone becoming the monetary authority where the weight of the single market and more than 300 mio citizens could better protect its currency. The euro has brought about cheaper finance for all: interest rates are at historically low levels, fostering investment and consumption and resulting in real benefits for consumers, for example through low mortgage rates and cheap loans.

Increased price transparency within the euro area together with the ECB's firm management of monetary policy, have led to a stable environment including low inflation,

supporting consumers.

The euro has brought about improved protection of the euro-area economies against financial crises. Without the single currency, events such as the oil crises or financial crises in general and the terrorist attacks of 11 September 2001 in New York and 11 March 2004 in Madrid or the financial accounting scandals of 2002 would have triggered major turbulences in Europe as a whole and in many euro area economies in particular and would have affected national currencies.

The elimination of the exchange rate risk within the euro zone has made cross-border business especially for SME and travel easier within the euro area without the risks and costs of changing currencies. Travelling outside the euro area is also easier since the euro has become a widely accepted international currency.

European consumers benefit from the relatively strong euro compared to the dollar because raw materials and oil being paid on the world market in US dollars. Lower foodstuff prices for the European consumers were also beneficial.

The euro has also brought about an increase in trade within the EU. Several studies prove that EMU has had a positive impact on intra-euro area trade, by roughly 10 % on average for all the countries in the euro zone, and up to around 17 % in countries such as the Netherlands, Spain, Belgium and Austria. In addition, the single currency has also contributed to increased trade with the outside world. Since 1999, international trade invoicing in euros has increased considerably.

The euro has gained a high standing in international financial markets, and is taking on an important role as an international reserve currency. Thus, the euro is becoming a preferred vehicle for international investment and borrowing.

Currency integration is also stimulating capital markets' integration inside the EU. Cross-border business has increased and more choice and lower prices will reach the average financial services consumer.

All these benefits were integrated into a very successful communication strategy from a political and technical point of view, both before 1999 when the old currencies were converted to the euro, as before the physical changeover 2002. Unfortunately since then no specific attention is given to the euro any more. Therefore the benefits of the introduction should be stressed especially in view to the new enlargements of the Euro zone.

## Lessons learnt

When I made the proposal to accompany in time the preparation of the introduction of the euro by an information and communication campaign, there was no warm welcome for it. Later the European Parliament and European Commission whole-heartedly supported this project. But it was always clear: the Euro has not to be accepted by the markets but also by the citizens. This made it necessary to prepare for information, communication and dialogues on all levels. The euro communication strategy which combined information, arguments and discussion insisted in not just financing euro propaganda but to promote the virtues of the euro without neglecting problems. Special care was taken first of all the experts and the financial services industry, the commerce, the consumers and the broad public. It was also important to address universities and schools, very often with pupils teaching their grand parents the use of the euro. It was of high relevance to address specific campaigns for specific target groups like the youth, the pensioners, women, illiterates, handicapped people etc. This step-wise approach created an expert-network and high-level interest and was key to the success of the campaign.

The euro campaign was a good communication campaign because of the timely debate and arguments integrating all political and economic actors as well as the broad public. The Euro campaign has proven to be the most successful information campaign of the European Union. The reasons were:

- there was a political message and a technical unavoidability. The Euro had to be introduced,
- Price stability was a general accepted crucial objective and given the challenges of globalisation, could not only be organized on the national level. But social stability should not be neglected – looking to the values and objectives of the EMU.
- all levels of decision-making and implementation worked together
- the public and the private sector sent out the same messages
- the bottom-down-approach was successful because of the trainees becoming trainers for everyone
- the leading role of the financial services identity and the public sector has not be neglected,
- consumer protection was a leading issue from the nickel content in the coins to the dual display of prices

- consumer protection was neglected because of the limited period of double pricing and voluntary agreements. Only Austria protected the consumers by law.
- reference to national challenges and specific national situation as for example in Germany with a population refusing in majority the introduction of the euro,
- the information campaign was not only timely but responded to the European events and calendars so that the subject of the campaign was very concrete
- the decentralization of the campaign helped enormously because the central and main message of the communication campaign got ownership on all levels which is necessary in democratic systems
- children were key for the promotion of the single currency not only being enthusiastic about the new bank notes and coins but also becoming story tellers and teachers of the elderly generation having their future in their hands
- municipalities worrisome about the threat of problems linked to the change-over were open to discussion and trainings and opened the town halls for Euro campaigns with conferences and expositions
- multiple target groups could be identified who needed more attention than the broad public in the information campaigns as people living in remote areas, handicapped people, different generations as ethnic minorities. So all challenges could be addressed
- the information campaign was stopped too early and not complemented by reports on the benefits of the euro taking into account macro-economic aspects as well as effects for ordinary citizens.

Several other benefits of the euro, such as greater price transparency and its effects on competition will only come if and when governments take the necessary measures in completing the internal market, hopefully within the framework of the Lisbon Strategy.

### **Price increases**

The euro campaign could not overcome the bad feelings about the euro because of price increases.

One of the hopes for the Single European market was that it would benefit consumers by

enforcing the “law of one price” where identical traded goods and services sell for nearly the same price in the single market. This could not be achieved because of the local cost differences and the deficiencies of the Single Market.

But even bitterer was the fact that the recommendation to freeze prices and not to use wrongly the euro conversion for price increases has not been respected. Despite the good practice of dual display of prices in euro and the respective national currency the consumers saw to their big disappointment the price increases appear with the introduction of the new currency. The feeling that prices increased dramatically after the change-over was shared by media and citizen and the blame was with the euro. Unfortunately, the monitoring of prices was rather non-existent. Despite the publication of statistics not indicating any price increases the citizens were furious. The overall effect of the introduction of the euro on inflation is now estimated to have only been 0.2% in 2002. But this very low increase hides a reality that was painfully obvious to the man on the street during 2002 and 2003. Being an average, the figure disguises the enormous prices hikes in everyday consumption items such as coffee, vegetables, bread, newspapers, a haircut, local taxes, including parking meters, and so on. Although inflation around January 2002 was partly caused by bad harvests and other economic factors, this explanation was not accepted by the consumers.

There was also an information gap because not enough information was provided to the average consumer on the likely risk that prices of everyday items and services would increase. Citizens were thus taken by surprise. And these impressions continued to exist despite nation-wide actions for example in the retail sector. SMEs were inadequately informed and were insufficiently supplied with enough cash to cope with all the transactions that took place in the first few months. Voluntary agreements to avoid unscrupulous price increases appear not to have worked or only up to a point. The communication campaigns on the euro were stopped right after its physical introduction. More time would have been needed to solidify the euro’s image in the public’s eye and to correct the wrong impressions caused by some price increases especially on items which weighed heavily on the average consumers’ budget.

The lesson learnt: keep double pricing longer before and after the introduction of the new currency. Given the experience with the felt inflation being related to the euro introduction being so high dual display of prices is a good tool for control but if it is not continued the safety passes away. The Austrian law could not protect completely because it was valid

only with the date of change-over despite the fact that many retailers etc increased their prices well in advance of the change-over and then decreased. So a clear picture was not possible and the consumers were irritated. In any case, the introduction of a price monitoring system is needed. Independent consumer protection organisations have to be supported by public financial funds. They can publish black and white lists concerning price behaviour and could invite the public and media on naming and shaming and thus help the consumer by organising transparency.

## **Perspectives**

The single currency remains and should remain as a communication priority for the EU. The benefits of the euro and of EMU need to be sold and explained to the public continuously especially during periods like now with the EU integration in a crisis. If the euro project is taken for granted, any external shock or political crisis could trigger an attack on the euro. The euro should not be the scapegoat for others' failures.

Specific action plans are needed to help the governments wanting to become member of the EMU. The new Member States, that joined the EU in 2004, have to prepare for EMU. The convergence reports of this year will be crucial. But they have also to address the broad public and develop a coherent euro communication strategy. None of the 10 new Member States is a member of the euro zone yet but they have no opting-out. They will have to adopt the currency sooner or later. The level of awareness about the obligation for new Member States to adopt the euro is worryingly low, since 57% of the population believes that their country has a choice about adopting the euro. What is especially needed is to address the fears of price increases that a considerable part of the public opinion has in the new Member States. It is also important to note that in the new Member States more financial transactions take the form of cash rather than electronic means of payment. A short period of dual circulation is the best option for a successful changeover in the new countries.

Specific actions to foster acceptance of the euro should be undertaken especially in view to the new member states:

1. The Commission has to calm down those who fear that the Euro zone enlargement will weaken the currency.
2. New member states should not threaten but please the member states of the Euro

zone because of better financial stability as the future common denominator and because of the chance to prepare a euro area reform programme.

3. The EU commission should present a yearly report about the benefits of the euro for the macroeconomic development but also for every man and woman.
4. The euro's image has to be improved especially in view to the broad public. The so called felt inflation is still higher than the real inflation rate because of the wrong impressions caused by price increases for some goods and services of concern to the consumers' budget like for example coffee, beer, hairdresser, cleaning. Specific target groups have to be identified.
5. Avoidance of the malpractices and instances of excessive rounding-up that occurred during the 2002 changeover;
6. Avoidance of price increases due to the changeover in the new member countries by price fixing in laws and double pricing one year before and one year after the introduction of the new currency or/ and monitoring procedures
7. Specific actions with SMEs to improve their acceptance of the currency
8. Acceleration of EU legislation to create a true Single European Payments Area in Europe in order to reduce the high cost of cross-border retail payments;
9. Joint Communication campaigns being paid by EU budget in the new member states.

Monetary Union is a union of stability. But monetary stability and solid financed of the member states are only one factor to cope with apart from the problems of unemployment. Europe has to gain momentum in growth, in durable growth on a high level. Europe has a high potential for economic and social progress which is used sufficiently. The euro makes the problems transparent, but it shows also the chances of Europe's future. Given the positive growth perspectives, it is time to find out how the European Union can become more competitive, and organise its own future while keeping the European social model. The main problem lies within the construction of EMU: Monetary policy, now that it has become the responsibility of the European Central Bank, has gained in profile. We have failed, however, to construct an economic union at the same time. What we need is European Economic governance. Europe will only succeed in realising sustainable growth on a high level if all forces and actors co-operate and co-ordinate.

