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COVER NOTE

from: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

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to: Mr Javier SOLANA, Secretary-General/High Representative

Subject: Communication from the Commission to the Council, the European
Parliament, the European Economic and Social Committee, the Committee of
the Regions and the European Central Bank
- Five years of euro banknotes and coins

Delegations will find attached Commission document COM(2006) 862 final.

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COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE
EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN
CENTRAL BANK**

Five years of euro banknotes and coins

{SEC(2006) 1786}

1. INTRODUCTION

The euro was introduced as the single currency of eleven EU Member States on 1 January 1999, followed by Greece on 1 January 2001. In daily life, this major event to some extent passed unnoticed since the consumers in the twelve countries concerned continued to use national banknotes and coins in payment transactions. Until the end of 2001, the euro could only be used in its scriptural form, e.g. for cheques or bank transfers in euro, although few initially made use of this possibility.

As from 1 January 2002, euro banknotes and coins were brought into circulation, and the euro became a tangible reality for the more than 300 million residents of the euro area, which collectively carry out about 300 billion retail payment transactions each year, more than 80 % of which are paid in cash. Following a smooth and well-prepared changeover, the total outstanding value of banknotes has almost tripled (from euro 221 billion in January 2002 to euro 595 billion at the end of 2006), whereas for coins it has increased more moderately (from euro 13.0 billion on 1 January 2002 to euro 17.6 billion).¹

Citizens in neighbouring countries or regions, notably where the euro is used for payment transactions and/or for savings purposes, as well as in many tourist destinations all over the world have also become familiar with the single currency. Estimates from the European Central Bank (ECB) indicate that between 10 and 20 % of the total value of euro banknotes in circulation is currently held outside the euro area.

Euro cash has been well accepted in the twelve euro-area countries, taking account of the fact that the population not only had to adjust to the new set of euro banknotes and coins which typically had a different denominational structure than the former legacy currency, but also to the new scale of prices and values.

The present Communication is accompanied by a Staff Working Paper of the Commission services, which provides more detailed information on the main issues raised in this Communication.

2. THE ROLE OF INFORMATION REMAINS CRUCIAL

According to survey information² collected by the Commission there is still a lack of specific information about the euro in certain areas. In other areas, some misperceptions remain widespread. This points to the need for renewed efforts to inform the general public in the EU about the euro.

¹ Based on figures from the European Central Bank. The latest figures refer to October 2006.

² See Flash Eurobarometer 193, 'The euro zone, 5 years after the introduction of the common European currency', carried out in September 2006 and the Flash Eurobarometer 191, 'Introduction of the euro in the new Member States', carried out in September 2006.

Lack of awareness of certain benefits of the euro

Some of the specific advantages of the euro are ignored by a majority of euro-area citizens. For example, only around a quarter or less of euro-area citizens (23 %) is aware that no extra costs or charges apply when withdrawing money with a bank card in another country of the euro area or when paying with a bank card (27 %) or executing a bank transfer (16 %) within the euro area.

The need for information is even higher in the new Member States, which will all enter the euro area in the future and where a majority of the people consider themselves to be badly informed. At the same time, polling results consistently show that ill-informed citizens tend to be the most reluctant and fearsome about the future introduction of the euro.

Persistent misperceptions

In other areas, certain misperceptions persist. For example, a large majority (93 %) of respondents in the euro area believes that the euro has added to the increase of prices. This misbelief has spilled over to the future euro-area entrants, as on average 45 % of respondents in the ten recently acceded Member States believe that the future introduction of the euro in their country will lead to higher inflation. This stands at odds with the ECB's track record, as annual inflation in the euro area has been below 2.4 % since the introduction of the euro in 1999.

Dual price displays can be counterproductive

The same survey information shows a continuous, although rather slow, development towards thinking in euro. For common day-to-day purchases, a clear majority (57 %) of the population in the euro area calculates in euro, whereas one in five still counts in the former national currency. For high-value exceptional purchases, such as a car or a house, more people still count in the previous national currency (40 % on average) compared to just 29 % thinking in euro.

After five years of mental adaptation to the euro, the Commission can only reiterate its earlier recommendation¹ that any residual dual display practices in the euro-area (except for Slovenia) should be discontinued as soon as possible. Dual displays assist consumers in the early stages of the changeover, but become counterproductive at a certain stage as they allow consumers to continue to count in national currency, thereby delaying the mental changeover to the new scale of prices and values.

3. EURO BANKNOTES AND COINS – FUTURE PERSPECTIVES

3.1. The general framework

Both euro banknotes and coins are legal tender in all euro-area countries. The responsibility for the production and issuance of euro banknotes exclusively belongs to the ECB. The EC Treaty has provided for a different framework with respect to euro coins since Member States, rather than the ECB, are responsible for producing and issuing euro coins, which helps to

¹ See COM(2002) 747 final of 19.12.2002: 'The introduction of euro banknotes and coins – one year after'.

understand why euro coins display national features. Both euro banknotes and coins are put in circulation by the euro-area national central banks.

The production of euro coins is decided and organised on a national basis, and typically falls under the responsibility of each country's national mint, except for countries without a mint which commission coins from other producers.

The differences between euro banknotes and coins also extend to the monetary income stemming from the issuance of euro cash (see 3.5 below), which is collected by the Eurosystem in the case of banknotes and by Member States in the case of coins.

3.2. Future euro banknotes and coins – future adjustments and possible improvements

Euro banknotes and coins are the product of a search for continuous improvement, notably in terms of quality, reliability and user-friendliness. The number of detected counterfeit euro banknotes and coins is extremely low compared to the numbers in circulation, and definitely lower than that of US-dollar banknotes.

Euro banknotes

As regards euro banknotes, the ECB started preparing the next series of banknotes shortly after the introduction of the euro cash into circulation, notably in order to continuously ensure state-of-the-art security features so that the banknotes always offer good protection against counterfeiting. The first denomination of the new bank note series is expected to be issued towards the end of the present decade and to be followed by subsequent denominations at certain intervals.

Euro coins – the national sides

In order to ensure the coherence of the euro coinage system, the Council decided in 2003 that the standard national side of euro circulation coins should remain unchanged ('moratorium') until the end of 2008.¹ However, Member States were allowed to issue 2-euro commemorative coins in order to celebrate specific events, subject to applying certain constraints with respect to quantity and frequency. Such commemorative coins are regular circulation coins, except that they have a different national side celebrating a particular event. Member States may also issue euro collector coins, e.g. in precious metals, but these are legal tender only in the issuing country and are not intended for circulation.

The Council's future decision on the national sides of euro circulation coins, which should be taken before the moratorium's expiry at the end of 2008, is a very important one which should be carefully prepared. The Commission will launch a survey in the course of 2007 among the euro-area population in order to collect people's views and preferences in this respect.

Euro coins – the common sides

The 5 higher denominations, which used to bear maps of Europe on the common side depicting the countries of the former EU-15 have been amended. Slovenia will be the first country to introduce coins with the new common sides as from 1 January 2007. The switch-

¹ Except in the case the Head of State depicted on a coin changes.

over of the twelve first-wave euro-area countries for new coin production is currently being prepared. Most of them will switch to the new common design already in the course of 2007, with a few others joining in 2008 at the latest.

3.3. Banknote and coin production and storage – enhanced efficiency

Euro banknote production is organised on a decentralised basis with pooling, in order to increase efficiency by achieving economies of scale. This means that the ECB allocates production on an annual basis to the euro-area NCBs, whereby each denomination is produced by a limited number of printing works and each NCB is responsible for the procurement of only one or a few denominations. Logistical stocks and a common strategic stock of euro banknotes, the Eurosystem Strategic Stock (ESS), shall ensure the continuity of euro banknote supply. The stocks are, inter alia, used for supplying the initial quantity of euro banknotes necessary for the changeover in Member States joining the euro area, as is the case with Slovenia on 1 January 2007. The ECB has furthermore adopted a guideline on the setting up of a single Eurosystem tender procedure (SETP) for procurement of banknotes that will start at the latest in 2012.

Euro coin production is a matter of national competence. Since decisions are taken on a decentralised basis, some of the benefits and efficiency gains stemming from pooling, notably co-ordination of production and/or storage are foregone. For example, the current framework does not preclude that certain countries decide to produce extra coins while other countries have excess stocks of the same denomination. Possibilities for improvement could therefore be examined, notably with respect to the three smallest denominations (1-, 2- and 5-cent) which collectively represent some 80 % on average of new coin production. They generate little monetary income and the production cost and related expenditure (transport, packaging, etc.) are high compared to their face value. Since the existence of different national sides to some extent constitutes an impediment for the exchange or transfer of coin stocks among countries, and possibly also for improving the efficiency of mass production, some Member States may be prepared to envisage the possibility of using small coinage with a "standard" national side to cover part of their needs for the three lowest denominations. Further possibilities for creating and/or exploiting synergies with respect to coin production and storage should be explored, notably in co-operation with the ECB in order to benefit from its experience in this area.

3.4. Common expenditure linked to the euro coinage system

Certain elements of the euro coinage system require common and co-ordinated action by all euro-area Member States, notably in the field of research and development, the exchange of information, etc. For purely practical reasons, it appears more convenient and efficient to finance such common activities from a common budget (as is the case for similar activities pertaining to euro banknotes which are financed by the ECB), rather than having to collect different national contributions before joint measures can be implemented or even envisaged. The possibility of creating a specific EU budget line for euro coinage projects and activities of common interest should therefore be examined.

3.5. Monetary income from euro banknotes and coins

Cash in circulation constitutes a source of income (generally called monetary income or seigniorage) for the issuing authority. In the case of euro banknotes, this income is pooled and subsequently distributed among euro-area national central banks according to a specific key based on each country's GDP and population. The situation differs with respect to euro coins, as the income (which roughly corresponds to the face value of the coin minus the costs for production and putting into circulation) is collected by the country issuing the coin. This approach should be equally satisfactory provided that there are no strong "net" migratory flows of euro coins between Member States (e.g. systematic inflows to, or outflow from, certain countries), in which case certain (specific or general) adjustments to the present system will need to be envisaged.

3.6. Framework for the protection of the euro against counterfeiting

The introduction of euro banknotes and coins, circulating in twelve member states and in a number of third countries, required concerted effort to protect the currency against counterfeiting, going outside the national scope.

While Member States continue to be primarily responsible for ensuring the protection of the euro, trans-national cooperation has been put in place to support anti-counterfeiting efforts. Responsibilities are shared between the European Commission/European Anti-Fraud Office (OLAF,) the ECB, Europol, Eurojust and Interpol.

As a basis, an efficient legal framework has been adopted at European level to increase the general level of protection and harmonise national legislation in this area. National analysis centres for counterfeit banknotes (NAC) and coins (CNAC) work closely with the ECB's Counterfeit Analysis Centre (CAC) and Commission/OLAF's European Technical and Scientific Centre (ETSC) to identify, analyse and withdraw counterfeit euro banknotes and coins from circulation, while measures have been taken to complete and achieve an appropriate level of harmonisation in criminal sanctions.