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The Bank of Italy and the euro

Speech by Antonio Finocchiaro
Deputy Director General of the Bank of Italy

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I wish to thank Dr. Kessler for the kind invitation to join you here.

The subject of my remarks concerns one of the typical functions of many central banks: the issue of banknotes. It is one of the oldest tasks central banks have performed and its interest today is due to the fact that never before in history have twelve countries simultaneously undertaken to replace their national currencies with a single common currency.

In view of the scale of the legislative, organizational, productive, logistic and security problems and of the far-reaching need for communication, the currency changeover is a major challenge, especially for the institutions responsible for its implementation. A hurdle that must be successfully cleared, for Italy's and Europe's sake.

I hope you will find what I have to say useful. The developments I shall report on can serve as the basis for a comparison with the parallel efforts being made in this period in the other national central banks.

1. Dual circulation. In a little more than two months, on the 1st of January 2002, euro banknotes and coins will start to circulate in Italy and the other euro-area countries. This will be the tangible outcome of the transition to the single currency begun in January 1999, when eleven countries, joined later by Greece, pooled their monetary sovereignty.

The new means of payment will initially coexist with lira banknotes and coins, which will be gradually withdrawn from circulation.

The period of “dual circulation” will come to an end on the 28th of February 2002. From the 1st of March the lira will no longer be legal tender. But for another ten years it will be possible to convert lira banknotes into euros at the Bank of Italy. Until the 31st of March 2002 it will also be possible to exchange banknotes of the other euro-area countries.

2. The currency and social cohesion. The currency is a crucial component of a sovereign country’s identity and a powerful factor of social cohesion. Accepting payment in cash is an expression of trust in others and the country’s institutions. This trust is the very essence of a system in which free trade is a means of achieving progress.

The significance of the introduction of euro notes and coins outweighs the technical and operational problems involved. The replacement of twelve national currencies by the euro — the abdication of national monetary sovereignty — will lead not only to closer relations between the area’s financial markets but also to greater understanding and cooperation among the member countries.

3. The euro and economic integration. I do not intend to describe all the progress that has been made in the integration of the European economies, but I would like to stress the persistence of the hopes and actions of generations of Europeans.

To enhance the value of common traditions and roots while opening to the rest of the world and to innovation is the founding principle of the European Union. It is reflected in the characteristics of the single currency.

The name “euro” conjures up “Europe” in all the area’s different languages.

The emblem, the arc with two horizontal bars, evokes the letter epsilon in the Greek alphabet. It thus brings to mind the classical culture that permeates western civilization. At the same time the two bars suggest monetary stability, the primary objective of the Eurosystem.

The illustrations of windows, portals and bridges in the various architectural styles of our past are symbols of our common heritage, of the spirit of openness and cooperation that animates the European peoples.

4. *The involvement of the Bank of Italy.* The introduction of a new currency requires maximum cooperation on the part of the institutions involved, the worlds of business and commerce, and the public. But for the operation to be successful, for the new currency to be accepted, there must be confidence in the institutions charged with its management.

Among these, the national central banks making up the Eurosystem play a crucial role. They are contributing their tradition of competence, rigour and independence.

The Bank of Italy is called upon to make a major effort in the currency changeover. It has been engaged at length in preparing for the event, on the one hand, as Italy's bank of issue and, on the other, as the authority responsible for banking supervision and oversight of the payment system.

The coordination of the whole operation within the Bank has been entrusted to a Committee made up of representatives from all the Departments involved in the changeover.

By the end of the year a task force will have been set up within the Bank ready to tackle any problems that arise.

5. *The supply of euros.* As the bank of issue, the Bank of Italy must guarantee an adequate supply of euro banknotes in terms of their quantity, quality and distribution throughout the country in a way that will permit a rapid and smooth transition to the new currency.

The delivery of euro banknotes to financial intermediaries will be handled by the branches of the Bank of Italy, while that of euro coins will be handled by the Ministry for the Economy and Finance.

Italy's 42,000 bank branches and post offices will be responsible for distributing the new notes and coins to the worlds of business and commerce and to the public. Most of the banking and postal systems' 34,000 ATMs will dispense euro notes from the early hours of the 1st of January 2002.

In order to cope with these demands, the Bank has strengthened its production and distribution structures, made changes to the production cycle, adopted new technologies and introduced a quality control system complying with international standards and the strict criteria established by the European Central Bank.

The annual production capacity of the Bank of Italy's printing works is currently 1.2 billion notes. The annual capacity for the selection and destruction of the existing lira banknotes is equal to 2.6 billion.

The printing of the last Italian banknotes, the 5,000 lira denomination, was completed on the 27th of July 2000. After more than 150 years the involvement of the Bank and its predecessors in the production of lire came to an end.

The first euro banknote was printed on the 1st of July 1999. The introduction of the new notes will permit the withdrawal of the 3.5 billion lira notes the public will be holding at the start of the period of dual circulation.

Of the initial production quota of 2.4 billion euro notes assigned to the Bank of Italy (out of a total target of 14.5 billion for the Eurosystem as a whole), 2.1 billion were ready yesterday — enough to meet the initial needs of the changeover. The vaults of the Bank's branches already contain 1.4 billion. The Carabinieri are ensuring the security of the euro notes with special units and equipment.

The delivery of the new notes to banks and post offices will begin on the 1st of November. At the beginning of the changeover period they will have 1,032 million mainly smaller-denomination notes, or 43 per cent of the total production quota.

In order to facilitate the diffusion and use of the new notes, the Bank of Italy has prepared 1.5 million packets containing 25 five-euro notes for distribution to financial institutions.

Other Bank of Italy projects directly related to the replacement of the lira have been completed or are in their final stages: the revision of its internal rules and some EDP procedures; the in-house training of cashiers, participation in the training of more than 14,000 employees of other organizations (banks, post offices, police forces and supermarkets); and the euro information campaign.

The Ministry for the Economy and Finance, the Bank of Italy and the Italian Bankers' Association will shortly complete all the instructions for the implementation of the changeover.

6. *The Bank of Italy and the banking system.* In March and June of this year the Bank of Italy sent out questionnaires to banks asking for information on the planning and monitoring of their preparations for the changeover, the stage they had reached in carrying out the various activities, the human and financial resources committed, and the difficulties encountered.

I shall not overwhelm you with a mass of figures.

Let me just say that the general picture emerging from the information the Bank has gathered is reassuring and improving.

All the banks expect to complete their planned activities on schedule. In June the majority of banks reported that they had completed between 70 and 80 per cent of their critical tasks, with those furthest forward reporting between 82 and 83 per cent; there were only a few laggards. Most banks will have set up branch support and crisis units by the end of the year and intend to assign additional resources for the assistance of customers.

By means of a third questionnaire on the situation as of the 1st of October the Bank will continue to monitor progress and spur on any banks that should fall behind.

7. *The information campaign.* The success of the changeover will depend crucially on the demand for the new currency. It is important that this be spread out over the country and spaced out over time.

Avoiding a concentration of demand in just a few days and places requires a special effort by the institutions concerned but above all by the mass media: newspapers, radio and television.

For the changeover to take place without serious hitches, the public must be given accurate and detailed information, with a clear content and in a comprehensible language, using the most appropriate channels of communication. Detailed explanations must be provided on how to use the euro in everyday transactions and how to avoid being duped by counterfeit notes and fraud.

The European Central Bank recently increased the information available to citizens by announcing the main safety features of the new notes.

In the last few weeks the question of communicating with the public has been at the top of the agenda, throughout the Eurosystem, of the organizations most directly involved in the replacement of the various national banknotes.

The Bank of Italy, on a par with the other national central banks, will focus primarily on ensuring familiarity with the visual, tactile and security features of the new notes and knowledge of the methods for changing lire into euros. This action will be supplemented by that of the Euro Committee at the Ministry for the Economy and Finance aimed at preparing citizens for the arrival of the single currency.

The Bank of Italy is pursuing a three-pronged approach involving:

- 1) the creation of a network of public and private entities that will relay the information initiatives of the ECB and the Bank of Italy to their employees and customers. As of today, more than 200 organizations have signed up. They include banks, industrial, retailing and service companies, the Post Office, trade associations, and local authorities;
- 2) the mailing to all Italian households and selected categories of citizens of material on the euro prepared by the ECB or produced directly by the Bank of Italy;
- 3) the build-up of contacts with the media aimed at supplementing the institutional dissemination of information.

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The introduction of euro notes and coins is the conclusion of a process that has already passed important tests.

To conclude, let me remind you that Italy has already experienced a similar changeover. Soon after the country's unification in 1861, a multiplicity of currencies was replaced with just one.

The operation was concluded with success.

I am confident that there will be a similarly favourable outcome in the first two months of next year. The cultural and historical ties between Italy and the other European countries will be strengthened by this accomplishment.