Editorial

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On January 1, 1999, the euro was introduced as the common currency of more than 300 million people in Europe. In the first three years of its existence, the euro was "invisible," as it was used only as a unit of account and for electronic transactions. It was not until the cash rollout on January 1, 2002, that the euro was widely perceived as Europe's new currency.

Within a few days, billions of euro banknotes and coins began circulating in twelve EU Member States (Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain). In the ten years that have since gone by, another five Member States (Estonia, Malta, Slovakia, Slovenia and Cyprus) have adopted the euro, making it legal tender in 17 countries[1] today.

Marking the tenth anniversary of the changeover, this special issue puts the spotlight on the euro cash project, revisiting this broad subject from different angles. The contributions presented here deal not only with the obvious topic of producing and distributing euro banknotes and coins in Austria, but also examine the acceptance of euro cash as well as its use in Central, Eastern and Southeastern Europe (CESEE). Other authors featured in this issue take a look at the balance sheet effects of euro cash migration, the related topic TARGET2 and the development of euro prices.

The first contribution, authored by *Koch* and *Schneeberger,* summarizes the extensive measures required in the run-up to the euro cash changeover to ensure the uninterrupted cash supply of businesses and households from the very beginning of 2002. Some 15 billion banknotes and 52 billion coins had to be distributed on time in all of the twelve participating countries. Austria's launch stock of euro cash was produced by two of the OeNB's subsidiaries, Münze Österreich AG and Oesterreichische Banknoten- und Sicherheitsdruck GmbH (OeBS). The cash changeover went very smoothly in Austria; within two weeks, 90% of all transactions were being conducted in euro.

Koch and Schneeberger also shed light on the volumes of euro cash in global circulation, which corresponded to a value of EUR 912 billion at end-2011. Ever since 2006, the worldwide circulation of euro has surpassed that of U.S. dollars in value terms (EUR 824 billion at end-2011). An estimated 25% to 30% of euro banknotes are used outside the euro area, while 50% to 70% of U.S. dollar banknotes are used abroad.

A large amount of euro banknotes is circulating in the CESEE countries. In their article on the use of the euro in CESEE, *Ritzberger-Grünwald* and *Scheiber* argue that people in these countries sought a safe haven in the euro as a stable parallel currency in the crisis arising during economic transition to a market system. However, euro cash holdings should also be seen in the context of the possible future EU accession of these countries.

According to the semiannual "OeNB Euro Survey," the share of people holding euro cash in late 2010 and early 2011 was highest in the former

[1] *Including overseas departments, territories and islands that are either part of a euro area country or are associated with a euro area country. Monaco, San Marino and the Vatican City State also use the euro based on a formal agreement with the European Community. The single currency is further used in Andorra, Kosovo and Montenegro, but not on the basis of a formal agreement.*

Yugoslav Republic of Macedonia and Serbia (30% to 35%), as compared to other CESEE countries. In Albania, the Czech Republic and Croatia, some 20% to 25% of the population had euro banknotes in their possession at that time, whereas in other CESEE countries, this share only amounted to between 5% and 10%. Although Central, Eastern and Southeastern Europe has undergone a phase of economic catching-up, the degree of euroization observed in the region has hardly declined in recent years. According to the survey, economically significant amounts of euro cash are primarily held by Southeastern European households, which – unlike their counterparts in Central and Eastern Europe – use euro cash as a store of value and, in some cases, as a means of payment next to their national currencies.

The next paper, by *Fluch* and *Schlögl,* focuses on public sentiment in Austria ten years after the introduction of euro cash. The authors show that Austrians were rather quick to gain confidence in the euro, familiarize themselves with the new notes and coins and develop a good sense of value for smaller euro prices. More than 90% of the Austrian population had no problems with the euro notes in the past years; in the case of coins this is true for about 70%. Only the handling of 1- and 2-cent coins still causes difficulties; 40% have had their problems with 1-cent coins and nearly 50% of the interviewed Austrians have difficulties with 2-cent coins, especially persons aged 55 or older.

Based on sentiment indicators, Fluch and Schlögl show that, up to the year 2009, the euro met with strong acceptance and satisfaction in Austria. However, in the wake of the sovereign debt crisis, Austrians' pro-euro attitude has since been waning, leading to a critical assessment at the height of the crisis in the summer and fall of 2011. According to survey results, the share of Austrians with a positive view of the euro dropped from its 2009 high of 80% to 60% in fall 2011. Dwindling confidence in the euro seems to have been primarily caused by the indecisive crisis management of EU and national policymakers, and not by euro cash as such. Nevertheless, Austrians still have a very favorable view of the personal benefits they draw from the euro: more price transparency, lower costs and fewer complications when traveling, and cost benefits in payment transactions are seen as undisputed merits.

Thanks to tourism, business travel and cross-border shopping, a large number of euro banknotes (and coins) circulate in the euro area. Prior to the introduction of the single currency, the volume of national banknotes that circulated abroad was much lower, and those that did find their way into other countries had to be channeled back to the central bank that had issued them, primarily via the commercial bank system. Euro banknotes do not have to be repatriated, as they can be used in all euro area countries irrespective of their place of issue. However, the central banks of the Eurosystem must compensate the uneven distribution of banknote flows; since tourist destinations clearly have a larger inflow of euro banknotes than other euro area countries, central banks must organize cash issuance in a way that ensures sufficient supply throughout the euro area at all times.

Krsnakova and *Oberleithner* explain the effects of banknote flows on the balance sheets of euro area central banks. The functioning of a monetary union relies on a host of rules and mechanisms. One of them is the regular adjustment of euro banknotes in circulation that ensures the even distribution of all euro banknotes in circulation in the balance sheets of the national central banks (NCBs). The authors present the relationships between the relevant items in central banks' balance sheets – primarily intra-Eurosystem balances arising from such adjustment and the liability constituted by banknotes in circulation – and provide insight into the origins of this mechanism and its legal basis. In the past ten years, the volume of euro banknotes in circulation has been steadily increasing, as is reflected in the balance sheets of the 18 Eurosystem central banks (including the ECB).

Jobst, Handig and *Holzfeind* shed light on intra-Eurosystem balances, an issue which has recently been subject to public debate in connection with TARGET2. Intra-Eurosystem balances are a necessity because the single monetary policy is implemented in a decentralized manner in line with the subsidiarity principle of the Treaty on European Union. Large claims and liabilities may arise for various reasons, many of which are related to the normal functioning of the euro area and do not require an economic policy response. Changes in TARGET2 balances also do not imply any direct changes in the risk exposure levels of national central banks. At the same time, there is no denying that the Eurosystem is facing major monetary and liquidity policy challenges. As soon as the liquidity assistance granted to the European banking system ceases to be necessary following appropriate economic policy measures such as recapitalizing banks or measures to restore confidence in government solvency, TARGET2 balances will also decline.

The next contribution of this special issue, authored by *Rumler,* deals with euro prices, a topic that is closely associated with euro cash in the minds of many people. The author examines the pass-through of commodity price changes to the consumer prices of selected products based on consumer price microdata for the period from 1996 to 2009. The estimation results for different products indicate (in part major) differences in terms of time lags and extent of pass-through. In the case of fuels (high-octane gasoline and diesel fuel), the author established a relatively strong and swift pass-through of crude oil prices, while bread (rolls) and meat (beef steak) show a rather limited degree of pass-though.

Rumler's estimation results also reveal that, for most examined products, the price pass-through was significantly stronger after the euro cash changeover than before. However, it was not possible to ascertain whether this rise was caused by the introduction of euro notes and coins. In the case of fuels and meat (beef steak), the pass-through to consumer prices was found to be stronger when commodity prices were increased than when they were cut. The result for fuels confirms the results of previous studies.

Fritzer examines the convergence of consumer prices in the euro area countries. The accession of low-price countries to Economic and Monetary Union (EMU) brought the general convergence of price levels to a halt in the past decade. However, consumer goods prices in the euro area countries, e.g. for private means of transport, clothing, shoes, audiovisual, photographic and IT equipment, continued their gradual convergence path after the euro cash changeover. Food and services price levels converged to a much lesser extent or not at all in the euro area.

A comparison of the price levels in Austria, Germany and Italy reveals that consumer goods and services prices have been converging – unlike food prices. The latter development seems to be mainly attributable to structural changes in the trade sector: While in many sectors, labor costs and profit margins have tended to fall amid moderate deregulation, thus potentially contributing to price convergence between Austria and its main trade partners, labor costs in Austria's food sector have been trending upward. Another driver of food price differences is the value-added tax levied on food items, which is higher in Austria than in Germany and Italy.