

Impact of the introduction of euro banknotes and coins on the German balance of payments

The changeover to the euro was already having an impact on the German balance of payments before the euro banknotes and coins were introduced on 1 January 2002. In the course of 2001, for example, large amounts of Deutsche Mark banknotes were being returned to Germany from abroad. Cross-border movements of banknotes have an effect on the balance of payments if they result in a change in Germany's liabilities to non-residents. In practice, however, it is virtually impossible to record these currency flows fully because most of the Deutsche Mark banknotes going abroad were taken there by travellers. Statistics exist only on Deutsche Mark banknote flows to and from other countries which were handled by the banking system, and past experience has shown that it is primarily returns that are recorded here; at all events, there is a certain element of uncertainty about these statistics. Gaps in recording would be acceptable provided the cross-border currency movements cancelled out relatively quickly within the balance of payments.¹ However, problems for the balance of payments statistics arise when, over a period of time, a fairly sizeable stock of German banknotes is built up abroad or is greatly changed – and that is precisely what has happened. There was a considerable demand from non-residents for Deutsche Mark banknotes, especially in the 1980s and the beginning of the 1990s. Estimates at the time – although these were subject to a high degree of uncertainty – put the stock of Deutsche Mark banknotes abroad at between DM65 billion and DM90 billion.² It is likely that most of this money has since been returned to Germany, and some of it certainly during 2001. Depending on how this money was repatriated, some of it may have had an impact on the balancing item in the German balance of payments.³ Further return flows of Deutsche Mark banknotes can be expected during the first few months of 2002;

¹ An example of this would be travel expenditure by German tourists abroad (= service imports) which, following the return of the Deutsche Mark banknotes, would result in corresponding credits in favour of foreign banks at German credit institutions (= capital imports). — ² See F Seitz, *The circulation of the Deutsche Mark abroad*, Economic Research Group of the Deutsche Bundesbank, Discussion

these, too, will have some effect on the balancing item.

With the changeover to euro banknotes and coins throughout the euro area, it has become generally impossible to achieve a complete statistical recording of currency movements. As a rule, this will result in balancing items. Two examples may illustrate the problem.

- German banks' cross-border cash consignments within the euro area result in changes in the external position of the domestic banks involved, and these changes are recorded in the financial account. As the euro banknotes dispatched are not statistically recorded in full, there will generally be no corresponding counter-entry. This alone will result in a balancing item in the German balance of payments.
- Another statistical gap arises in connection with foreign travel. When German residents meet their travel costs in euro, this is normally reflected in the German current account, that is to say, provided it is statistically recorded in the collection of travel data. But here, too, there is no counter-entry in the German balance of payments, and so once again there will be a balancing item.

The problems addressed ultimately mean that in future there will be (additional) "systemic" gaps in the recording of cross-border transactions. To that extent, the balancing item's function to provide a warning about potential errors in the balance of payments will be impaired. Consequently, the margins of uncertainty in the other balance of payment items will also tend to increase, and balance of payment analysis will become even more difficult.

paper 1/95, May 1995. — ³ The decline in the Deutsche Mark banknotes held by non-residents and not recorded in the balance of payments has tended to reduce the (positive) balancing item. In other words, if it had been possible to capture these cash returns, the balancing item in 2001 would have been even larger.