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Examintion of the need for the 50-öre coin

SUB-PROJEKT 2

In the review of the banknote and coin series

NOVEMBER 2008

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Background

The Executive Board decided in March 2008 to carry out a review of the Swedish banknote and coin series. The review is conducted in the form of five sub-projects.

Sub-project 1 was completed with a report published in September 2008, entitled "The use of cash in Sweden". This memorandum comprises the steering group's report from sub-project 2, the examination of the need for a 50-öre coin.

More detailed information can be found on the Riksbank's website www.riksbank.se, under the heading "Banknotes and coins", where all of the reports are published as they are completed.

Stockholm, November 2008

Peter Kvist

Chairman of the steering group

1. Summary

The project's steering group proposes in this report that the 50-öre coin should cease to be legal tender with effect from 1 October 2010.

There are clear signs that the 50-öre coin is used increasingly rarely by the general public as a means of payment. According to the Riksbank's surveys, two-thirds of the population considers that the coin is no longer needed. The retail trade and the banks advocate withdrawing the coin.

If the 50-öre coin is abolished, the 1-krona coin will be the lowest denomination of coin, although the "öre" will remain as an arithmetical unit. Electronic payments made, for instance, by debit and credit cards will not be affected. However, cash payments will need to be rounded off to the nearest krona instead of to the nearest 50-öre, as now. The act on rounding off certain amounts in öre must therefore be changed at the same time as the 50-öre coin is withdrawn.

It is considered unlikely that a withdrawal of the 50-öre would affect the consumer price index (CPI). The reason is that the CPI is based on a basket of goods, the value of which is calculated at the non-rounded off price of the various goods. The CPI is the measure the Riksbank uses to calculate inflation.

It is assessed that abolishing the 50-öre coin would not have any significant effect on the demand for other denominations of coin. It would therefore entail a reduction in the costs to society for the production and administration of coins. One-off costs would arise in connection with the withdrawal.

2. History

Sweden has historically had a number of low denominations of coin that have been gradually declared invalid. The 1-öre and 2-öre coins ceased to be valid in 1972, the 5-öre and 25-öre coins ceased to be valid in 1985 and the 10-öre coin in 1992.

The current copper-coloured 50-öre coin was introduced in 1992. During a period of time there was also a silver-coloured 50-öre coin. These became invalid in 2006. The copper-coloured coin is now the only valid 50-öre coin.

Table 1. Dates that coins have been declared invalid

Denomination	Ceased to be valid
1 öre	1972
2 öre	1972
5 öre	1985
25 öre	1985
10 öre	1992

Source: The Riksbank

3. Volumes, circulation and costs

3.1 Volumes

At the end of 2007 there were 342 million 50-öre coins in circulation, which corresponded to a value of SEK 171 million. The coin comprised around 16% of the number of coins in circulation. The 50-öre coin's share of the total outstanding value of circulation coins was around 3%.

The number of 50-öre coins in circulation declined substantially in 2006, as a result of the withdrawal of the silver-coloured coins. Consequently, the decline for new coins increased in 2006 and 2007, but not to a sufficient extent to correspond to the coins that had been declared invalid.

The number of 50-öre coins in circulation is still much lower than prior to the withdrawal of the silver-coloured coins. See Table 2.

Table 2. 50-öre coin: Coins in circulation and coins purchased 2003-2008

Number, value/year	2003	2004	2005	2006	2007	2008, forecast
Coins in circulation 31 Dec., millions	552	576	574	284	342	377
Coins in circulation 31 Dec., value SEK million	276	288	287	142	171	189
Purchased coins, millions	30	30	25	60	50	35

Source: The Riksbank

3.2 Coin circulation

A survey carried out by the Riksbank in 2000 showed that a majority of the general public had coins lying around at home that were never used. The amounts were relatively large, on average approximately SEK 750 per household.

A further indication of poor coin circulation is that the value of the total number of coins in circulation is increasing at a higher rate over time than the amount of cash as a whole. During the period 1998-2007 the value of the total amount of cash increased by 32%, with banknotes increasing by 32% and coins by 46%.

The consequence of this is that the Riksbank issues more coins than are necessary as an instrument of payment.

The fact that the silver-coloured 50-öre coins only needed to be replaced to a minor extent is a sign that many of these coins were lying around unused and only appeared when they were about to be withdrawn. The statistics appear to confirm that the 50-öre coin is primarily used as change by the shops and increasingly rarely as a means of payment by consumers.

3.3 Costs

The Riksbank's purchase cost for the 50-öre coin is around 30 öre per coin. This is equivalent to around SEK 15 million in the year 2007. In addition, there are administration costs for the Riksbank, the banking system and the retail trade. The coin weighs 3.7 grammes, which means that the total weight of the coins in circulation is around 1,300 tonnes.

4. Perceptions of the general public and cash market

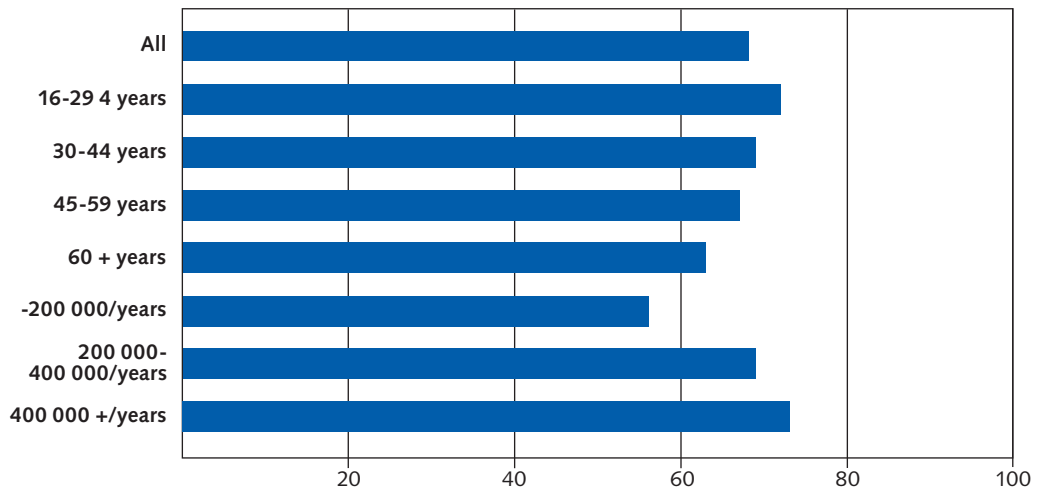
4.1 General public

At the end of 2006, the Riksbank carried out a survey of the general public regarding banknotes and coins as well as the use of cash and cards. It consisted of around 1,000 telephone interviews and was made by the survey company Synovate.

One of the questions asked was: "Is there any of the current coin denominations that you consider to be unnecessary as a means of payment?" 68% of the respondents said "yes" and 32% said "no". To the question of which coin was unnecessary, the predominant response was the 50-öre coin. Two out of three (67%) of all those responding considered the coin to be unnecessary.

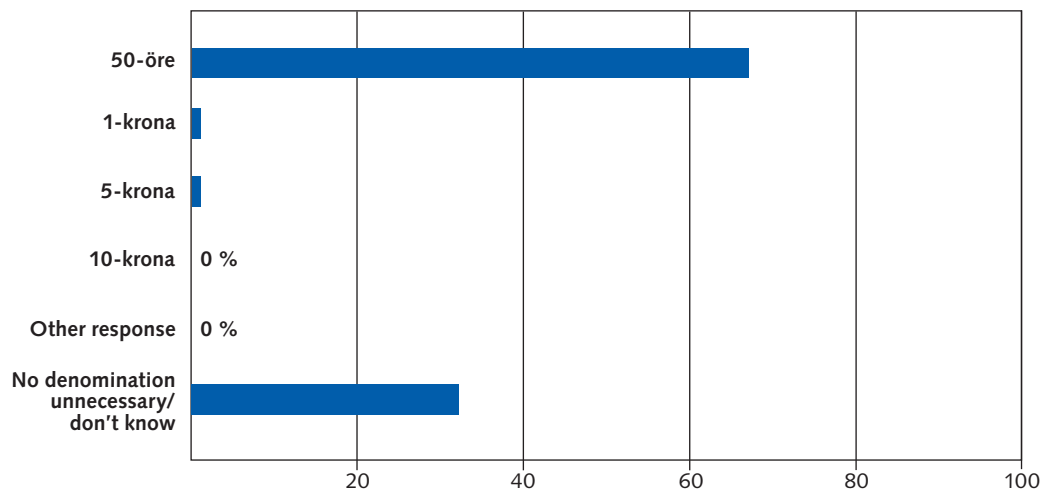
The youngest age group responded "yes" to the first question slightly more often than other age groups. The oldest age group had a slightly lower share of "yes" responses. Households with higher incomes responded "yes" to a slightly greater degree than those with lower incomes. See Figures 1 and 2.

Figure 1. The general public's response to the question "Is there any of the current coin denominations that you consider to be unnecessary as a means of payment?" The percentage of "yes" responses broken down by age and household income.



Source: The Riksbank/Synovate 2006

Figure 2. The general public's response to the question "Which coin denomination(s) do you consider unnecessary as a means of payment?"



Source: The Riksbank/Synovate 2006

4.2 Cash market

The steering group's preliminary report has been submitted for comment to the participants in the project's referenced group in October-November 2008. This includes representatives of the retail trade's professional organisations as well as the larger banks and cash-in-transit firms.

The retail trade's professional organisations Svensk Handel and Butikerna, three banks and two cash-in-transit firms have responded to the draft report. They all support the proposal to withdraw the 50-öre coin.

The Riksbank particularly asked for comments on what timing would be appropriate for declaring the coin invalid. Those who have commented on this issue have recommended the autumn or spring and not in connection with a major holiday season.

5. Low denominations in other countries

The lowest denomination of coin in Denmark and Norway is the 50-öre coin. Denmark has recently declared its 25-öre coin invalid. The euro area has eight coin denominations, with 1, 2 and 5 cents as the lowest denominations. Some of the euro countries, including Finland, do not issue 1-cent and 2-cent coins.

Iceland has had the 1-krona coin as its lowest denomination since 2002. As the value of the Icelandic krona is low, however, Iceland in practice has a lower minimum coin denomination than the other Nordic countries.

Table 3. Lowest coin denomination in neighbouring countries and approximate values November 2008

Country	Lowest coin denomination	Value in Swedish currency, approx.
Norway	50 öre	57 öre
Denmark	50 öre	67 öre
Euro area	1 cent	10 öre
Iceland	1 krona	6 öre

Source: The Riksbank

6. Consequences of declaring the coin invalid

6.1 Rounding off

If the 50-öre coin is declared invalid, the lowest coin denomination will be the 1-krona coin. There will still be an "öre" arithmetical unit. This means that electronic payments with, for instance, debit and credit cards will not be affected by withdrawing the coin. However, cash payments must be rounded off to the nearest krona.

If the Riksbank decides to propose that the 50-öre coin is declared invalid, the Bank should at the same time provide a proposal for a change in the act on rounding off certain amounts in öre (1970:1929). The content will be that sums in öre in cash payments will be rounded off to the nearest hundred instead of, as today, to an amount divisible by fifty. It is proposed that the final figures one to forty-nine be rounded down and the final figures fifty to ninety-nine be rounded up.

6.2 Inflation

The Riksbank's measure of inflation is the consumer price index (CPI). This is calculated by Statistics Sweden every month registering the prices of the goods in a basket of goods without rounding them off. If, for instance, a product costs 9.90 according to its price tag, this is the price that will be registered in the CPI calculations, even if the 50-öre coin is abolished.

This means that the CPI will only be affected if the prices on the price tags change, i.e. that prices are raised (or lowered) as a result of the 50-öre coin disappearing. It is assessed as unlikely that this would happen to such an extent that it has an impact on the CPI.

6.3 Costs

Withdrawing the 50-öre coin could lead to some increase in demand for the 1-krona coin. However, the assessment is that the impact on other currencies would be slight. Abolishing the 50-öre coin therefore probably means that the purchasing costs for coins will be lower and that the administration costs for the Riksbank, the banks and the retail trade will be reduced.

Withdrawing the 50-öre coin would lead to one-off costs for information campaigns, transports, recycling of invalid coins and changes to coin machines and tills, etc.

When the silver-coloured 50-öre coin ceased to be valid in 2005-2006 around 33% of the coins in circulation were returned to the Riksbank. If the same conditions apply this time, around 125 million coins will be gathered in and recycled. The Riksbank's costs for withdrawing the 50-öre coin are in this case calculated at SEK 10-15 million.

As in previous withdrawals of coins, it is assumed that the banks and the retail trade will bear their own costs.

7. Timetable

Declaring the 50-öre coin invalid requires a decision by the Riksdag. This would be in the form of an act prescribing that the coin shall cease to be legal tender. According to the prevailing EU regulations, comments must be obtained from the European Central Bank (ECB).

After a decision by the Riksdag, it would require around one year for information campaigns and practical administration. Given this, and the wishes of the cash market, it is proposed that the coin ceases to be legal tender with effect from 1 October 2010. The final date for payments with the coin would then be 30 September 2010.

After this there will be a period of time when it is still possible to redeem the coins at a bank and when the banks can redeem the coins at the Riksbank. These dates will be determined by the Riksbank later on.

8. The steering group's

There are clear signs that the use of the 50-öre coin has declined and that the coin has a low circulation. Consumers use it increasingly rarely as a means of payment.

Two-thirds of the population considers that the coin is no longer necessary as a means of payment. The retail trade professional organisations advocate withdrawing the coin. The banks and cash-in-transit companies that have expressed opinions have been positive to the proposal to declare the 50-öre coin invalid.

Withdrawing the coin would entail a reduction in the costs to society for the production and administration of coins.

Given this, the steering group considers that there are predominantly reasons in favour of declaring the 50-öre coin invalid and for its withdrawal.

The steering group recommends that the Executive Board proposes to the Riksdag that it should issue an act prescribing that the 50-öre coin will cease to be legal tender with effect from 1 October 2010.

At the same time, it is proposed that the Executive Board present a proposal for a change in the act on rounding off certain amounts in öre with the content that in cash payments any öre amounts should be rounded off to the nearest hundred.



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