
From Irish Pounds to Euro

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INTRODUCTION

On 9 February 2002 the Irish pound ceased to be legal tender in Ireland. This marked the end of the dual circulation period which started on 1 January 2002 when euro banknotes and coins became legal tender.

The transition to euro was remarkably smooth in Ireland. Instead of a gradual process, most people opted for a fast changeover, thus avoiding having to handle two currencies at the same time. Both companies and citizens were well prepared, thanks to an extensive information programme, and the logistical challenge of distributing the banknotes and coins was handled impeccably. Media coverage was very positive, reflecting the enthusiasm with which the euro was received.

After only one week the euro changeover was more or less completed in Ireland.

PREPARATIONS

Preparations for the introduction of euro banknotes and coins comprised two main elements: the physical aspect of the production and distribution of banknotes and coins, and the general preparation of targeted information campaigns aimed at the business community as well as the general public.

In Ireland the overall responsibility for the changeover was held by the Euro Changeover Board of Ireland, ECBI, under the Ministry of Finance. It was the responsibility of the ECBI to oversee the detailed implementation of the changeover modalities outlined in the government's National Changeover Plan and to lead the national coordination of the information work. Production and distribution of banknotes and coins remained the responsibility of the Central Bank of Ireland.

¹ The author worked at the Central Bank of Ireland at the time of the changeover.

The ECBI was set up in 1998 with representatives from many different parts of Irish society, including the Central Bank of Ireland and banking and business organisations. At the end of 2001 the ECBI had 23 members. The ECBI's secretariat was the driving force behind the strategic planning as well as the day-to-day work.

A significant task for the ECBI was to identify the responsibilities of the individual participants in an overall perspective, and subsequently to ensure binding commitments, e.g. with regard to changeover facilities in the banks and the acceptance of Irish pounds by retailers. Commitments from the participants were incorporated in *Ireland's Cash Changeover Plan for 2002*, which was published in April 2000.

Other major stakeholders in the public sector included:

- *The Central Bank of Ireland*, which was responsible for the production of banknotes and coins. In the period up to and just after the actual changeover the Central Bank was deeply involved in the public information work, particularly in relation to the press. The Central Bank played the decisive role vis-à-vis the financial sector, e.g. in connection with the distribution of banknotes and coins.
- *Forfás EMU Business Awareness Campaign*, a government-funded, but independent campaign secretariat, was responsible for preparing business enterprises, particularly the small and medium-sized enterprises.
- *The Office of the Director of Consumer Affairs*, ODCA, which was responsible for a national Code of Conduct aimed at protecting consumers against unwarranted price increases in connection with the changeover.

Production and distribution of banknotes and coins

Much of the currency in circulation, in Ireland as in other countries, is not used for day-to-day transactions, but is placed in savings, has disappeared abroad or been lost. It was therefore not necessary to match the circulation of Irish pounds on a 1:1 basis. The value of the euro banknotes and coins put into circulation on 1 January was around half that of the pounds in circulation. The primary focus of the Central Bank was to ensure that from the outset the supply of small denominations of banknotes and coins was sufficient to avoid shortages before the banknotes and coins had made their way through the system. Local shortages might have occurred even though the overall cash volume was adequate, e.g. if coins to be given as change had piled up in supermarkets. One way of ensuring the circulation of the small denominations was to include them in the first disbursement of pension

payments in euro.¹ No shortages were reported in the dual circulation period.

The actual distribution of banknotes and subsequent storage by the recipients were subject to strict security requirements to prevent counterfeiters from gaining access to genuine banknotes before 1 January. Due to the strict security measures and the scale of the task in general, the distribution of banknotes and coins could not take place within the framework of the usual cash distribution system. Instead, an alternative system was established for both banknotes and coins. For the Central Bank and the parties involved this entailed a far greater degree of detailed management than normal, e.g. due to the gardaí (police) escorting all banknote transports.

In addition to the Central Bank, the banks were the main actors involved in the cash distribution, supplying both smaller financial institutions and retailers.

As in the other countries, a gradual changeover had been planned, with citizens bringing down their holdings of Irish pounds in day-to-day transactions, and little by little switching to euro as they received euro as change or made cash withdrawals. The retail sector was thus intended to play a key role in the actual changeover, while the financial institutions were to be less visible, apart from the exchange of large cash holdings.

The financial sector did not receive compensation for its participation in the changeover directly. However, in return for the payment of a lodgement fee by the Central Bank on returned Irish pounds, the banks agreed not to charge cash-handling fees to retailers on sub-frontloaded euro (prior to 1 January) or on Irish pounds lodged by retailers between 1 January and 15 February. This scheme has cost the Central Bank up to 9 million euro.

Citizens could buy Euro Starter Packs from 14 December. The packs contained 19 coins worth 6.35 euro (5 Irish pounds). At the main post office in Dublin the stock of 23,000 packs was sold within a few hours. Nearly all the 1 million packs were sold before 1 January, thereby supplying the public with 19 million coins.

Public information

Information measures aimed at both the business community and the general public started as early as 1996. However, up until late 2001 it was difficult to stir up any interest. Particularly among small and

¹ Pensions and other social benefits are paid out in cash in Ireland, which generally contributes to a more cash-based economy in Ireland than in Denmark. The Irish postal services, which handle the payments, committed to disburse four 5-euro notes if the sum exceeded 20 euro.

medium-sized enterprises the lack of interest could have caused problems, but a targeted and highly practically-oriented effort by Forfás during the last few months before the changeover helped to prevent this. In the general public (and the media) a significant surge of interest was noted when the banknotes were depicted in the media at the end of November, and coin packs came on sale as from mid-December.

The ECBI produced extensive information material, some of which was distributed to households in the period 1998-2001. The most important tools for preparing the general public were a handbook – containing information about most changeover issues – and an electronic converter. The handbook was sent to all adult citizens in October, while the converter was distributed door-to-door in November/December. Both initiatives were highly acclaimed. The public information material was supplemented by a massive bombardment of advertisements in all media.

The ECBI also prepared information material for disadvantaged groups, e.g. voice tapes and Braille pamphlets for the blind and partially-sighted, sign-language manuals for the deaf, and summaries in a number of languages. The most important material from the Central Bank related to the appearance and security features of the banknotes.

Both the ECBI and Forfás set up hotlines where citizens and business people could ask questions and order materials, and the Internet was used actively in the campaigns.

The ECBI's information activities alone totalled 22 million euro over a four-year period, of which 16.6 million euro was spent between 1 May 2001 and end-February 2002. For comparison, the extensive Forfás campaign targeted at the business community cost 9 million euro.

THE ACTUAL CHANGEOVER

Most Irish pubs continued to trade exclusively in pounds throughout New Year's Eve. At 1:30 a.m. cash dispensers closed, and their ongoing supplies were replaced by euro. On 1 January the Central Bank was symbolically open for the exchange of money. Around 3,000 people queued for up to two hours to acquire euro. Shops, pubs, buses, etc. accepted euro without problems, and from 2 January banking institutions were ready to exchange pounds for euro.

Contrary to plan, cf. page 53, most people decided to exchange all their pounds at a banking institution once and for all, and subsequently only use euro. This meant that dual circulation, i.e. the simultaneous use of two currencies, was eliminated, and after just a few days the euro was the dominant currency. No major regional differences were reported.

The rapid changeover meant that the largest burden was shifted from retailers to financial institutions, leading to considerable queuing at the latter, particularly during the first few days and the last few days of the dual circulation period. This pressure led to the introduction of local restrictions in some branches, contrary to the overall commitments.

In view of the fairly limited role of the retail and service sectors in the changeover, it is interesting to note that a number of small shops and service providers refused to accept Irish pounds (especially coins) at a relatively early stage.

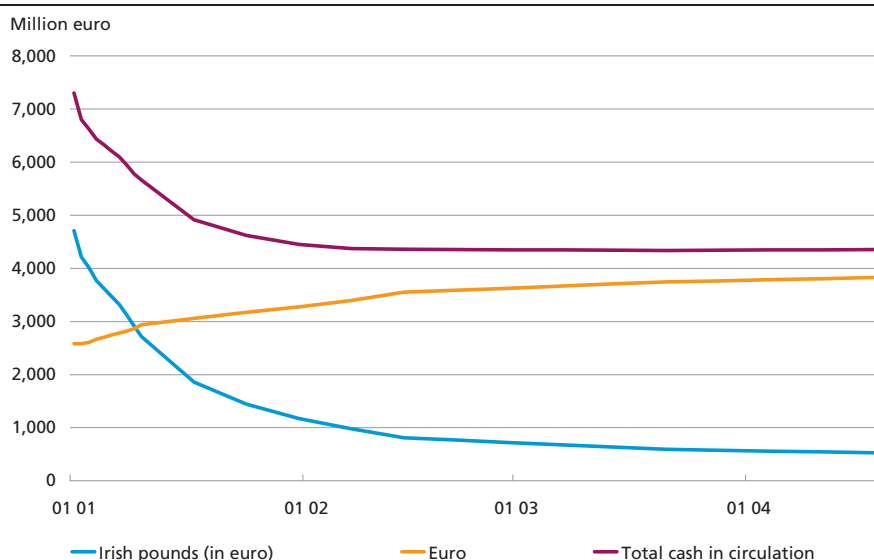
The development in cash in circulation

In the period from 1 January to 9 February 2002, Irish pounds and euro were both legal tender, and cash in circulation thus comprised both currencies. This meant that the cash in circulation increased from 3.7 billion pounds (4.7 billion euro) on 31 December to 7.3 billion euro on 1 January, cf. Chart 1.

The value of the euro in circulation rose throughout the spring, and by mid-April was 48 per cent higher than at the turn of the year. In addition to a certain trend element, this increase reflects a gradual conversion of cash savings. This is emphasised by the fact that the circulation of the small denominations has dropped (by e.g. 55 per cent for the 5-euro

DEVELOPMENT IN CASH IN CIRCULATION, 2002

Chart 1

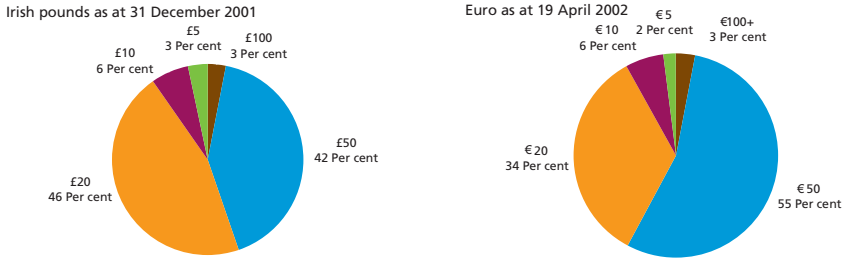


Note: In the dual circulation period the total cash in circulation was affected by the withdrawal of the legacy currency and the issue of euro. After 9 February the cash in circulation solely comprises euro, and in formal terms the withdrawal of Irish pounds thus only concerns the cash in circulation to the extent that this leads to new issues of euro.

Source: The Central Bank of Ireland.

DISTRIBUTION OF BANKNOTES IN CIRCULATION

Chart 2



Note: The conversion rate is 0.787564 Irish pounds per euro.

Source: The Central Bank of Ireland.

note), while the use of the large denominations has increased considerably (by e.g. 163 per cent for the 50-euro note). The trend for banknotes in circulation is determined by the banknotes loaded to cash dispensers (demand from banking institutions) and by the banknotes directly requested by citizens and the business community.

After adjustment for differences in value, the breakdown by banknote has been remarkably consistent, in that the 50-euro note has not only taken over the role of the 50-pound note, but also to some extent that of the 20-pound note, for example for payment where two 20-pound notes were used, cf. Chart 2.

It is thus reasonable to conclude that the changeover has not led to any major changes of behaviour with regard to the use of cash.

Including the remaining stock of Irish pounds, the value of banknotes in circulation is also more or less unchanged¹ at 4.4 billion euro² in mid-April, against 4.7 billion euro at the turn of the year. This supports the assumption that cash savings in Irish pounds have to a large extent been exchanged for cash holdings in euro, and not deposited with banks, and that cash is used to the same extent (and for the same purposes) as before.

As euro issued in one country may be used throughout the euro area, the actual cash in circulation in e.g. Ireland will not match the amount put into circulation by the Central Bank of Ireland. Consequently, national issue-based compilations of cash in circulation will in time become indicative rather than precise.

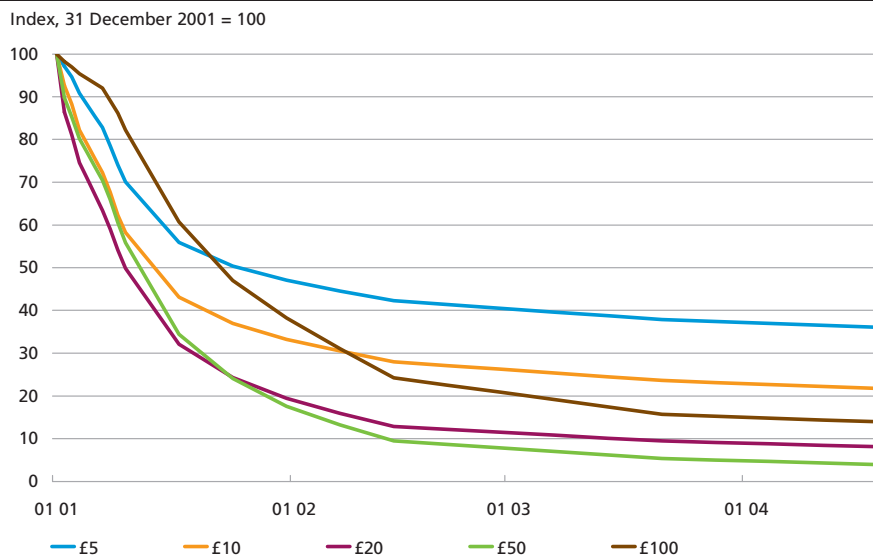
The withdrawal of the most frequently used banknotes, the 20-pound and 50-pound notes, was effected fairly rapidly, cf. Chart 3, partly because they were absorbed by retailers and exchanged by financial institutions, and partly because they made up the base stock in cash dis-

¹ The value of banknotes in circulation always tends to be greater in December than in other months.

² Including Irish pounds for a value of 527 million euro that are not formally included in cash in circulation, since the Irish pound is no longer legal tender.

OUTSTANDING VOLUME OF IRISH POUNDS

Chart 3



Source: The Central Bank of Ireland.

pensers, so that a large proportion was already held by the financial institutions.

As cash savings were gradually converted, 100-pound notes also made their way back to the Central Bank. It is clearly apparent how the withdrawal of the lower denominations has progressed more slowly. It must be expected that some of these banknotes, especially the 5-pound notes, have either been lost or kept as souvenirs, and therefore they will not be returned.

On the expiry of the dual circulation period, 79 per cent of the Irish pounds had been withdrawn. Much of the outstanding amount was coins, which had deliberately been given a lower changeover priority than banknotes, since their value in relation to their weight is low. At mid-April the outstanding amount in Irish pounds had fallen to 11 per cent, and only 3 per cent of the 50-pound notes and 7 per cent of the 20-pound notes had not been returned to the Central Bank. No deadline has been set for the exchange of Irish pounds to euro by the Central Bank.

Price developments

Ireland is the only euro-area member state where the conversion rate was lower than 1, so that all prices seemed to go up. Opinion surveys conducted before the changeover disclosed widespread fear of unwarranted price rises. Against this background the voluntary scheme involv-

ing a national Code of Conduct was introduced by the ODCA. Participants committed themselves to using the conversion rate when converting prices and to operate with dual display of prices in the dual circulation period. The only remedy that could be applied against those violating the Code was a public "name and shame" policy. Although several concrete cases were raised by the media and a number of single instances reported by citizens, this remedy was not used.

In spite of the Code of Conduct, unwarranted price rises was one of the few problems repeatedly highlighted by the media, and apparently experienced by many citizens. Overall inflation was 4.9 per cent in January 2002, up from 4.2 per cent in December, but not at an unusual level for Ireland. There are, however, a number of indications that a few areas, e.g. hotels and restaurants, have experienced significantly higher price rises in connection with the changeover.

One problematic aspect of assessing price rises around New Year is that many companies find this a natural time to adjust their prices. As the general rate of inflation and wage increases are relatively high in Ireland (at 4.9 and 9.2 per cent, respectively, in 2001) periodic price adjustments, particularly in sectors where wages and salaries account for a large proportion of costs – such as hotels and restaurants – will lead to high rates of increase when such adjustments are made. In many areas an ongoing adjustment to round prices in euro can also be expected.

LESSONS LEARNT FROM IRELAND¹

The physical existence of euro gives future participants in the euro system a very different point of departure. Nonetheless, the overall task is the same, namely cash distribution and information.

An important lesson to learn from Ireland is that careful preparations can ensure a fast and efficient changeover without leaving behind weak groups in the population. Future new euro participants need not launch as extensive an information campaign as Ireland, since the euro is no longer an abstract concept, but a physical entity which many citizens and business proprietors are already familiar with.

It is also important to note that very few citizens felt a need for a long dual circulation period. The period when both pounds and euro were used for day-to-day transactions was thus in reality reduced to a few days.

¹ In April the ECB published a evaluation report on the changeover in the entire euro area. This report, *Evaluation of the 2002 Cash Changeover*, is available from the ECB's home page at www.ecb.int.