The penny to be withdrawn gradually as of February 4, 2013

In its March 2012 budget, the federal government announced plans to withdraw the one-cent coin. The penny will not completely disappear, but the Royal Canadian Mint (RCM) will stop issuing one-cent coins. This decision was made for several reasons: the penny’s very weak purchasing power, rising production costs compared to its face value (each penny cost 1.6¢ to produce in 2011) and the stockpiles of pennies Canadians have at home which are out of circulation and no longer serve the productive purpose usually attributed to a coin.

Environmental considerations and significant handling costs for retailers, financial institutions, as well as for consumers and the economy in general, are the main reasons behind the government’s decision. Research made by Desjardins Group’s Economic Studies found that keeping the penny costs Canadians an estimated $150M a year, at least.

Keeping the one-cent coin costs the federal government $11M a year, or less than 10% of the total cost of all the economic agents in Canada. In this context, the net transition costs for the government (tens of millions of dollars in the next few years) to gradually withdraw the penny from circulation seem minimal compared to the recurring annual savings Canadians will see down the line.

ROUNDING CASH PAYMENTS

The RCM stopped minting the one-cent coin on May 4, 2012, and will stop issuing pennies to financial institutions on February 4, 2013, thus removing the penny from circulation. However, the penny will maintain its value and legal tender indefinitely and will still be accepted by businesses that choose to keep it as a form of payment.

As pennies are withdrawn from circulation, prices will have to be rounded to the nearest nickel for cash transactions, including taxes. Non-cash transactions (debit card, credit card, prepaid card, cheque, etc.) will continue to be settled to the nearest cent.

Since the penny will continue to be the basic unit of Canada’s monetary system, retailers and other businesses will continue to set their prices for goods and services to the nearest cent. Therefore, cash registers do not need to be reprogrammed and businesses are not required to change their price tags.

The government expects businesses to round off the final amount of a transaction in a fair, consistent and transparent manner based on the guidelines issued by the Department of Finance Canada. These guidelines on rounding cash payments have been successfully implemented in other countries.

As a result, considering a large number of transactions, there will be no net gains or net losses for consumers and retailers and the penny’s elimination will have no inflationary impact whatsoever.

PENNIES TO BE MELTED DOWN AND RECYCLED

Once the RCM stops issuing one-cent coins as of Monday, February 4, 2013, businesses will be asked to return their pennies to their financial institutions. The coins will then be melted down and the metal recycled, creating a source of revenue for the federal government that will, in part, offset the transition costs the government must absorb, such as the cost of buying back coins as well as processing and handling fees. Consumers will also be asked to bring their

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1 Desjardins Economic Studies significantly contributed to the debate on the need to eliminate the Canadian penny in two studies published on the topic in 2007 and in 2008. These studies can be found at the following addresses: www.desjardins.com/en/a_propos/etudes_economiques/actualites/point_vue_economique/pve70215.pdf and www.desjardins.com/en/a_propos/etudes_economiques/actualites/point_vue_economique/pve80409.pdf.

2 For more information on these guidelines, please consult the Department of Finance Canada (www.fin.gc.ca) and the Royal Canadian Mint (www.mint.ca) websites.
pennies or rolls of one-cent coins to their financial institutions or to give them to charitable organizations.

In eliminating the coin with the lowest face value, Canada is following the example of many other countries that have done so successfully, e.g. Australia, Norway, Switzerland and New Zealand. The operation went smoothly in these countries and eliminating the one-cent coin, or the smallest coin, had no impact on the inflation rate, as prices were rounded symmetrically. In some cases, countries even saw certain retail prices drop slightly in the short term due to marketing operations. In fact, retailers preferred rounding final prices in the client’s favour to give them an edge over their competitors.

**CAN THE NICKEL BE FAR BEHIND?**

Last spring, the RCM issued new $1 and $2 coins that are a bit lighter than previous ones, more economic to produce and more secure. And in 2010, the Bank of Canada started issuing a new series of polymer bank notes (these new “plastic” $20, $50 and $100 bank notes are already in circulation and new $5 and $10 bank notes will be issued by the end of 2013). The recent changes to coins and bank notes, as well as the withdrawal of the penny, are part of a wide-ranging project to revamp Canada’s monetary system and mark a turning point in the history of Canada’s currency.

These changes take into account developments in other payment methods, price advances over the past few decades and the population’s rising standard of living. They also enable the government—and society as a whole—to realize substantial savings. Despite the rise in other payment methods like debit cards and credit cards, the popularity of coins and bank notes, combined with the fight against counterfeiting and the desire to reduce the cost of issuing bank notes, are the main reasons that motivated the federal government to modernize certain coins and bank notes.

With the penny set to be eliminated, the time has probably come to assess the pertinence of eliminating the nickel in the next few years now that it is also becoming increasingly obsolete. Doing so would, this time, mean having to round prices up or down to the nearest dime!

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**Rounding guidelines**

Since the penny is being phased out, the final price, after taxes, will have to be rounded up or down. This applies to cash transactions only.

![Rounding guidelines chart](source: Department of Finance Canada)