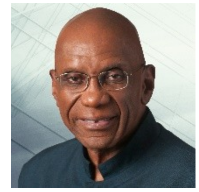
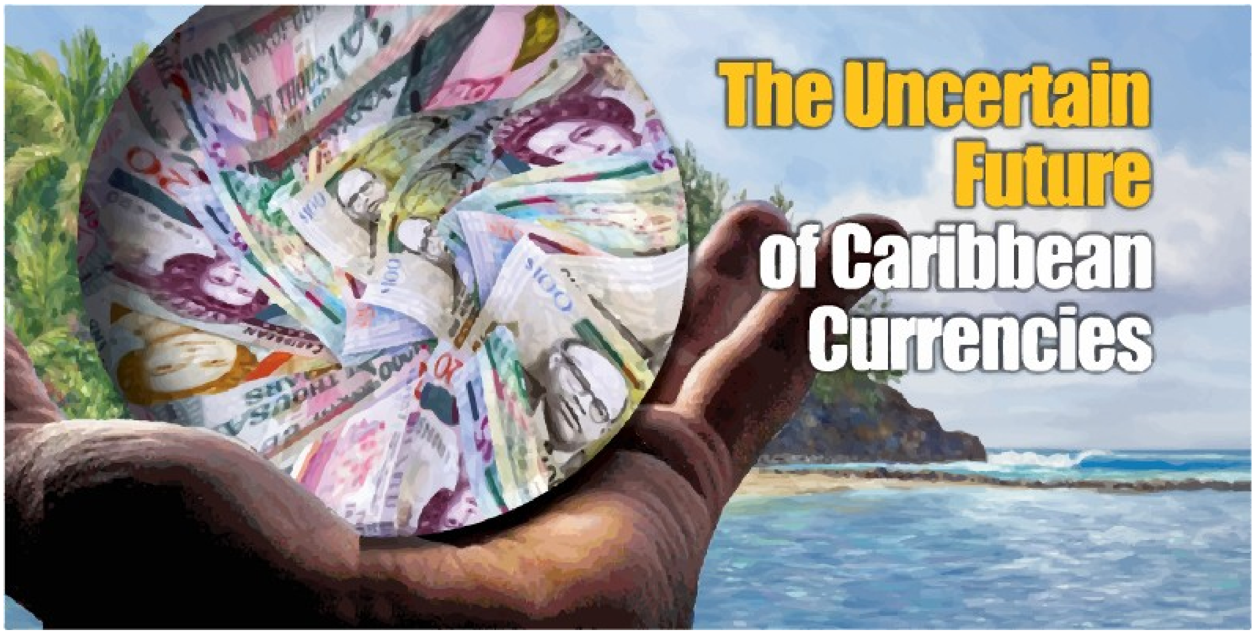


Economic Letter January 2022



The Uncertain Future of Caribbean Currencies

Over the Christmas holiday I caught up with my sister Yvonne who lives in the Canadian city of Oakville, in the Toronto metropolitan area. Oakville has a population of 223,000, which means that, with Canada's per capita GDP of 43,000 US dollars, its GDP is about 10 billion US dollars. That is two and a half times the GDP of Barbados. The idea that a small township within the Toronto metropolitan area should have a currency of its own on the face of it seems absurd. Why then would it make sense for an even smaller economic entity like Barbados to have its own currency?

It's not as though the citizens of Barbados have access to resources to better their standard of living through the use of Barbados dollars. As Barbadians have been reminded by recent events, the prices of everything we buy rise – and occasionally fall – with the prices of all the everyday goods that we import from abroad. The reason that the possibility of a devaluation of the Barbadian dollar fills us with such dread is that such an event would simply amplify the impact of every import price increase.

Guyanese, Jamaicans, Surinamese and Trinidadians know first-hand what punishing effects the fall in the US dollar values of their currencies have had on their livelihoods and future prospects. Many factors have contributed to the relatively poor performances of larger Caricom countries, relative to tiny economies like St Kitts-Nevis, Bermuda and the Cayman Islands, but there can be no doubt that currency devaluation was among the causes and as well as being a consequence of their disappointing performances. This intuition is confirmed by a reflection on the relative performances in the 1950s and 1960s, when all currencies had fixed values in terms of the US dollar. In those decades, economic performances were more in line with what would have been expected, based on country sizes and resource endowments.

The individual currencies of Caribbean countries are now all on the endangered species list. Already 56 percent of bank deposits in Trinidad and Tobago are in US dollars; the share of US dollars in Jamaica is not far behind, at 40 percent. The lower figure for Jamaica reflects the fact that depositors there have more limited access to foreign currency than in Trinidad and Tobago. In Bermuda, where US dollars are more freely available, the ratio of foreign currency liabilities of banks was 82 percent of deposits at the end of 2020.

If the local currencies of the Caribbean did not exist we would not need to invent them. They were introduced in response to a chronic shortage, up until the late nineteenth century, of genuine notes and coins in distant colonies of European nations. Local currencies were necessary so long as most transactions were settled in cash. However, in today's era of online payments, digital wallets, credit and debit cards, cheques and other bank-based payments, local currencies have become a costly inconvenience at best. At worst they have the potential to create economic uncertainty and destroy real wealth.