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The Great Exchange: Rapid Demonetization in Trinidad & Tobago



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TRINIDAD & TOBAGO

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The Great Exchange: Rapid Demonetization in Trinidad & Tobago

Summary

1. In December 2019 the Trinidad & Tobago authorities announced a surprise demonetization of its largest currency note, the \$100 cotton bill.
2. Aimed at curbing financial crimes, it was similar in intent to recent exercises in India (2016), Mauritius (2017/18) and Kenya (2019).
3. It was implemented in 3 phases:
 - i) Announcement (December 5-9, 2019);
 - ii) Co-circulation Exchange (December 10-31, 2019); and
 - iii) Post-demonetization Conversion.
4. The laws were quickly changed to allow for a short demonetization period and a new \$100 polymer note was introduced.
5. Project implementation was relatively smooth, with good opportunities by the public to redeem the \$100 cotton notes conveniently.
6. TT\$476 million or 5.8% of the demonetized notes were not presented for redemption to date, compared to less than 1% for India and 3.4% in Kenya.
7. Early evidence points to a reduction in cash demand as deposits increased, but not a persistent change in electronic transactions.
8. The significant increase in reports of suspicious financial transactions provides important information for follow up on tax evasion and money laundering.



Objectives of Demonetization

- **Demonetization** involves the declaration of a country's currency as no longer legal tender; the demonetized currency is often replaced by a new note or currency.
- It is sometimes used to deal with **inflation or hyperinflation** (e.g. Zimbabwe and Venezuela to “knock some zeros off” the currency, or within the context of a **monetary union** (e.g. European Union member countries gave up their national currencies in favour of the euro.)
- Rapid demonetization is on occasion used **to curb illegal activities**, such as counterfeiting, black market activities and money laundering.
- In December 2019 the Trinidad & Tobago authorities announced a **surprise demonetization of its largest currency note**, the \$100 cotton bill.
- The action was to be carried out over a **very short time frame** and was principally aimed at curbing financial crimes.



Similar recent episodes of rapid demonetization



INDIA (2016)—Rs500 and RS1,000 notes (86% of cash in circulation) declared no longer legal tender from night of announcement. Measure aimed to target black money, reduce corruption, and remove fake currency notes.



MAURITIUS (2018/19)— In December 2018 the Central Bank issued a polymer banknote of Rs2000, replacing the paper banknotes which would cease to be legal tender from February 1, 2019. Aimed at addressing corruption and counterfeiting.



KENYA (2019)—In June 2019 the Central Bank stated that over 200 million KSh 1,000 notes to be demonetized on October 1, 2019 and replaced by new notes. Aimed at stopping illicit financial flows and to address counterfeits.



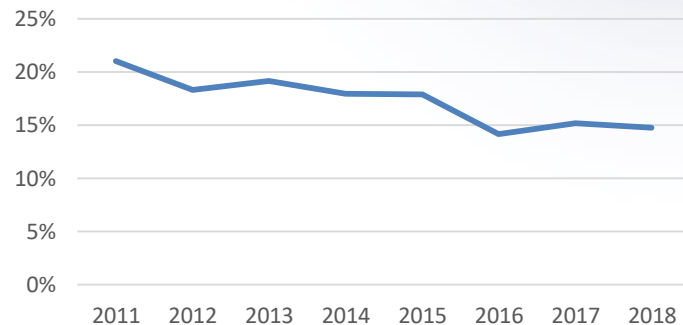


Trinidad and Tobago: Background on Cash in Circulation

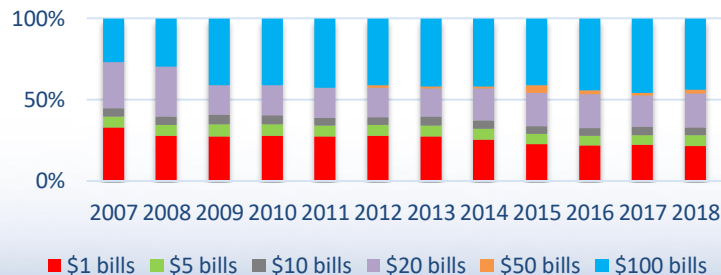
On the eve of the demonetization:

- Cash in circulation was high at around 5% of GDP.
- The use of cash for payments purposes remained significant, but was slipping in importance.
- There was a sense that significant sums of cash were being used for savings, or held for illegal purposes.
- The \$100 note was by far the most dominant bill in circulation (almost 50% of the volume of notes).

Cash as a Per Cent of Payments



Composition of Notes Issued (by volume)





Phase 1: Announcement Phase (December 5-9, 2019)

- **(Dec. 5)** Minister of National Security announces measures to the public. Central Bank unveils new polymer note on its website.
- **(Dec 6-7)** Parliament debates and assents to change in laws to allow for shortened demonetization period and conditions for conversion.
- **(Dec 8)** 80 million polymer \$100 notes arrive in Trinidad & Tobago.
- **(Dec 9)** Central Bank Governor holds media conference on details of the new currency and conversion framework. \$100 polymer note becomes legal tender.



Minister Young at press conference on December 5, 2019

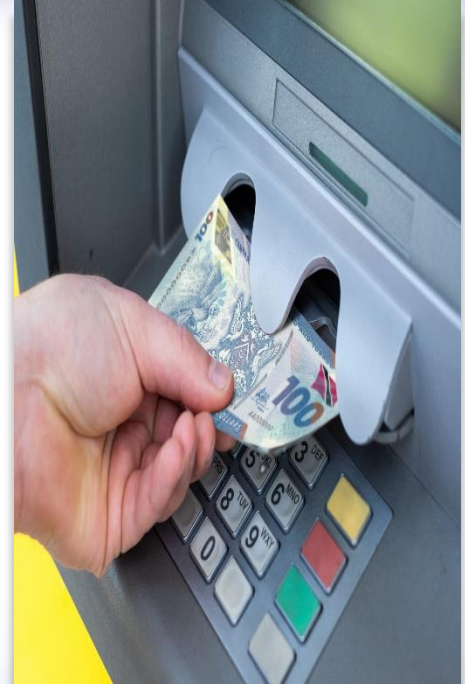


Governor Hilaire at media conference on December 9, 2019.



Phase 2: Co-circulation Redemption Phase (December 10-31, 2019).

- **(Dec 10)** Commercial banks start to redeem cotton notes from the public under specified conditions and extend their work hours.
- **(Dec 11-12)** Central Bank mounts *Know Your Money* workshops across the country.
- **(Dec 13)** ATMs start dispensing the new notes.
- **(Dec 16)** Central Bank starts to exchange notes for the general public.
- **(Dec 24)** Central Bank issues Guidelines for Redemption of \$100 Cotton Notes after December 31, 2019.
- **(Dec 31)** At midnight, the \$100 cotton note ceases to be legal tender.

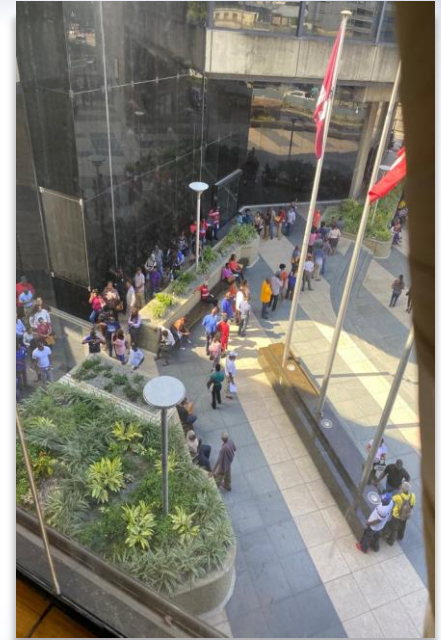


ATMs start to dispense the polymer note



Phase 3: Post-demonetization Exchange Phase (January 1- April 1, 2020)


- **(Jan 1)** \$100 cotton note no longer legal tender and can only be exchanged under specified conditions at the Central Bank.
- **(January 17-31)** All persons allowed to convert up to TT\$1,000 in cotton notes at the Central Bank in a one-time, same-day exchange.
- **(March 11)** World Health Organization declares global pandemic. Health and safety requirements for exchange at the Central Bank adjusted in conformity with national guidelines.
- **(March 30)** Minister of Finance issues Legal Order specifying exchanges after April 1, 2020 for cases related to court proceedings.
- **(April 1)** End of exchanges at the Central Bank.



Persons waiting to exchange notes at the Central Bank on January 30, 2020



Evaluation 1. Administration of the exercise:

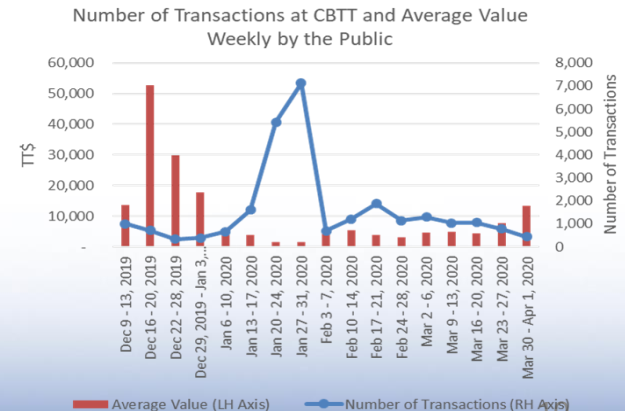
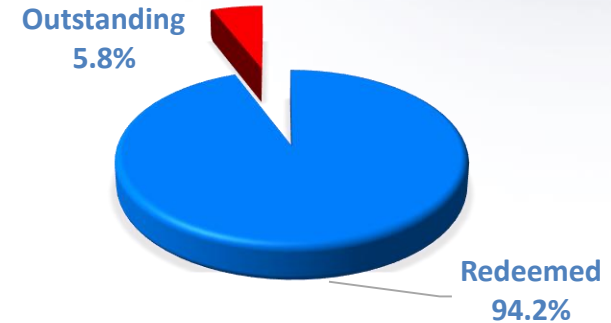
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- Overall, conversions went relatively smoothly, given the short advance notice and compressed redemption period.
 - Banks did the bulk of the conversions, reacting quickly and comprehensively by restructuring their teller, cash distribution and storage operations.
 - Initial long lines at banks dissipated by the second week as ATMs started to dispense the new notes and the public was able to exchange at the Central Bank.
 - Enough polymer notes were available to cover the full amount of \$100 cotton notes in circulation, unlike periodic shortages of new notes reported in India.
 - Some complaints in December of temporary unavailability of lower denominations, and of robberies of persons who had just converted cash.
 - Public communication seemed effective in explaining the mechanics of the conversion, the timelines and features of the new note.
 - To date, there have been no judicial challenges to the demonetization.
 - The one major change in plans—allowing all persons to convert up to TT\$1,000 in late January—led to a noticeable bulge in the volume of conversions, but not the value.



Evaluation 2. The extent of “missing money”:

- About TT\$476 million, or 5.8% of the value of \$100 cotton notes in circulation, was not presented for redemption.
- This compares to estimates of less than 1% for India and 3.4% for Kenya.
- The vast majority of the exchange occurred prior to the demonetization date of December 31, 2019.
- The late January concession to allow for general exchanges up to TT\$1,000 for all individuals did not lead to a large increase in the value of transactions.
- This suggests that the leakages from this action—the capacity of criminal elements to bypass the conversion restrictions—was small.

\$100 COTTON NOTES

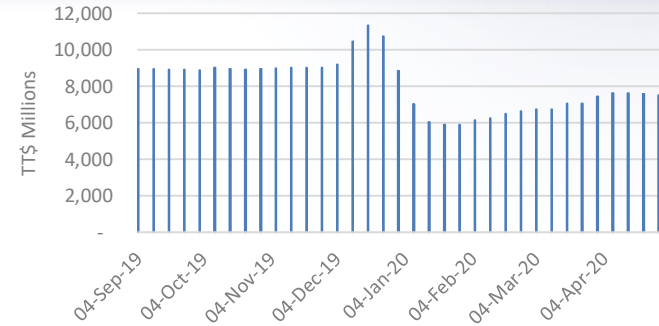




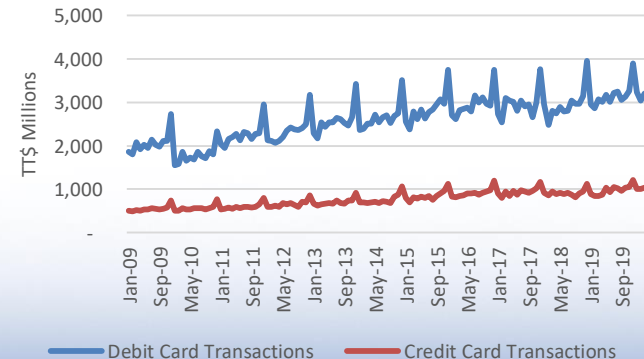
Evaluation 3. Broader impact on cash usage:

- There was a decline in currency in active circulation, which was 17% lower at the end of April 2020 from its TT\$9 billion value at the end of November 2019.
- This was accompanied by a significant rise in local currency deposits as companies and businesses deposited some of the \$100 cotton notes, instead of simply exchanging them for polymer.
- There was a noticeable boost in electronic transactions as banks raised their credit and debit card limits, while electronic point-of-sale activity rose above its normally high end of year levels.
- But this boost to digital forms of payment seemed short-lived as in Q1: 2020 card and point-of-sale activity returned to pre-demonetization levels.

Currency in Circulation



Debit and Credit Card Activity





Evaluation 4. Insights on tax evasion and money laundering:

- The information requirements for conversions were intended to deter criminals, and as a basis for follow up on potential tax evasion and money laundering.
- Even when notes were successfully redeemed, banks could report “suspicious transactions” to the Financial Intelligence Unit (FIU).
- The FIU received almost 900 reports of suspicious transactions between December 2019 and April 2020, largely associated with the currency exchange, a significant jump from the normal pattern.
- Between 1/5 and 1/3 of high value exchange transactions (over TT\$50,000) processed by the Central Bank were reported to the FIU.

Number of Suspicious Transactions and Activity Reports submitted to the Financial Intelligence Unit by Category of Submitting Institution

Period	Regulated Financial Institutions	Listed Businesses	Non-Regulated Financial Institutions	Total
December 2019-April 2020	652	36	207	895
December 2018-April 2019	226	13	118	357
December 2017-April 2018	279	7	220	506
December 2016-April 2017	163	14	136	313

Source: Financial Intelligence Unit



Conclusion and the Way Forward

- This paper has presented an early evaluation of Trinidad and Tobago's demonetization just a few months after the exchange ended.
- The exercise demonstrated the strong capacity of Trinidad and Tobago's financial actors to work closely and efficiently in a very complex national undertaking.
- It also laid bare some important gaps in financial inclusion and literacy that need to be addressed.
- The analysis can form the basis for future research as more data become available in determining the persistence of our results on "missing money", currency demand, digitization, and the extent of information made available on tax evasion and money laundering.
- The follow through on the policy side includes analysis and action on the information gathered, and further advances in institutional and legislative reforms to tackle financial crimes.



Thank You