



# Elimination of the 1-Cent Coin

## Background

In 2018, the Central Bank of The Bahamas, with the assistance of Secura Monde International as consultants for the initiative, commissioned a study to examine the need for continued issuance of the 1-cent coin, taking into account the use of, demand for, and cost of producing and issuing the coin. As the sole issuer of banknotes and coins, the Central Bank is responsible for ensuring that these products function securely and efficiently, for both the cash management market and the general public.

## Proposal

The proposal is that the 1-cent coin should cease to be legal tender with effect from December 31, 2020. If the 1-cent coin is eliminated, the 5-cent coin will be the lowest denomination issued. Electronic payments made, for instance, by debit and credit cards, will not be affected by this initiative. However, cash payments will be rounded off to the nearest 5 cents.

## Rounding Rules

The proposed rounding rules are simple and fair for all. Where a total bill is being paid in cash and the number of cents to be paid does not end in zero or five, thus requiring either the customer to use 1-cent coins in payment or the retailer to use such coins in giving change, the amount of change to be paid will be rounded to the nearest 5 or 10 cents:

- 1 and 2 would be rounded down to zero (e.g. \$4.21 becomes \$4.20).
- 3 and 4 would be rounded up to 5 (e.g. \$7.23 becomes \$7.25).
- 6 and 7 would be rounded down to 5 (e.g. \$15.67 becomes \$15.65).
- 8 and 9 would be rounded up to 10 (e.g. \$27.89 becomes \$27.90).

It is important to note that rounding only takes place on the total bill, not on individual prices. As such, prices should not be changed in advance and existing price points (such as with items priced at 99 cents) should remain.

The amount of VAT (Value Added Tax) paid is unaffected by rounding. VAT is calculated on the amount charged for taxable supplies. Rounding should take place after the VAT is calculated on a bill and only when the customer is paying the total amount of an invoice in cash or paying the balance of an invoice in cash. If the customer is paying the total bill with cash and card, an amount rounded to the nearest 5 cents should be paid in cash and the remaining odd amount paid by card. For example, a total bill of \$23.39 could be paid with \$3.00 in cash and \$20.39 by card.



Before the rounding becomes effective, retailers should indicate the applicable rules of rounding through appropriate in-store signage. The Central Bank would make such signage available in the form of stickers, posters, etc., for in-store display to any retailer, regardless of size. Should some retailers prefer to develop their own signage, the necessary imagery will be made available for download by the Central Bank in advance of the withdrawal date. If larger stores require significant quantities of physical material, they should notify the Central Bank in advance.

Service fees connected with bank transactions and the proceeds of cheques cashed at the counter should be rounded in accordance with the established rules.

## Rationale for the Proposal

The 1-cent coin denomination of the Bahamian currency has been in circulation since 1966. In over 50 years of circulation, the 1-cent coin has lost around 90% of its purchasing power, while the cost of its production and administration grew in line with inflation and now exceeds its face value.

The current value of these coins is so small that essentially no goods or services can be purchased with them. The only remaining utility of these coins is to give change in larger payment transactions. Once the coins are given to the consumers as change, they are rarely used in subsequent transactions, which leads to large volumes of new coins being issued every year to compensate for poor circulation of this denomination.

There are clear signs that the 1-cent coin is used increasingly rarely by the general public as a means of payment. According to the Central Bank's surveys, only about half of the population (52%) regularly uses the 1-cent coin for making payments. This share is much lower (40%) for the younger consumers (age 16–34), likely related to generally lower usage of cash for payments in this age group. Over three quarters (78%) of the consumers never or rarely return accumulated 1-cent coins to the banks or post offices. Only about a third (39%) of the retailers and the banks regularly receive 1-cent coins in the course of their business. There is a clear concern over the cost of handling 1-cent coins; a significant majority (61%) of businesses estimates it to be equal or higher than the face value of the coin.

## Volumes and Costs

The Central Bank's purchase and distribution cost for the 1-cent coin is 1.04 cents. This is equivalent to around BSD 443,000 in 2017. Additionally, there are logistical and processing costs to the commercial banks and the retail trade.

Making coins consumes a substantial quantity of metal, and their weight makes handling and logistical services costly. Each 1-cent coin weighs 1.7 grams, therefore the total weight of the 1-cent coins in circulation is around 1,100 tonnes. Each year, approximately 75 tonnes of new coins are added.

Withdrawing the 1-cent coin would lead to one-off costs for information campaigns, transports, recycling of withdrawn coins and changes to coin machines and tills, etc. It is expected that at least 215 million 1-cent coins will be gathered in and recycled during the withdrawal campaign. The Central Bank's costs for withdrawing and repaying the value of the 1-cent coin are in this case calculated at BSD 2–3 million.



The one-off costs will be offset by the estimated annual savings to the economy of BSD 800,000–1,000,000, comprising of the costs of issuing new 1-cent coins into circulation and handling them in the retail and banking transactions. Over the next ten years, the cumulative savings resulting from the elimination of the 1-cent coin are expected to exceed BSD 7 million.

## International Experience

Many countries have withdrawn low denomination coins that are no longer useful or cost-effective to maintain, including Australia, Brazil, Canada, Denmark, Ireland, Norway, Sweden, South Africa, and Trinidad and Tobago.

Countries that have implemented a low denomination coin withdrawal universally assessed as unlikely that consumer prices will change to such an extent that it has an impact on the inflation. The competition in the retail sector typically restrains price increases. The overall impact on the cost of living and on retailers' sales and profitability from the low denomination coin withdrawal is generally very small.

## Timeframe

The information campaigns and practical administration of the proposed withdrawal will take 12–24 months.

### Important Dates

January 31, 2020:	Last issuance of 1-cent coins by the Central Bank.
Until December 30, 2020:	1-cent coins may still be used as a medium of exchange in The Bahamas.
December 31, 2020:	1-cent coins demonetized and are no longer considered legal tender in The Bahamas.
Until June 30, 2021:	1-cent coins may continue to be redeemed at Central Bank partner locations, to be announced.