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Studies in Applied Economics

**THE CURRENCY BOARD
MONETARY SYSTEM OVER
100 YEARS IN BERMUDA
(1915-2015)**

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Johns Hopkins Institute for Applied Economics,
Global Health, and Study of Business Enterprise



The Currency Board Monetary System over 100 Years in Bermuda (1915-2015)

By John Stanton

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About the Series

The Studies in Applied Economics series is under the general direction of Prof. Steve H. Hanke, co-director of the Institute for Applied Economics, Global Health, and Study of Business Enterprise (hanke@jhu.edu). This working paper is one in a series on currency boards. The currency board working papers will fill gaps in the history, statistics, and scholarship of the subject. The authors are mainly students at The Johns Hopkins University in Baltimore. Some performed their work as summer research assistants at the Institute.

About the Author

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Abstract

We examine to what extent Bermuda's monetary authorities have operated like currency boards, using statistical tests based on balance sheets and an analysis of Bermuda's legislation. Our analysis indicates that in the early 20th century, Bermuda had a currency board system. In later years, problems with analyzing the balance sheet make a judgment based on statistical tests more difficult. We provide a companion spreadsheet workbook of annual or semiannual data of the monetary authority for the past 100 years.

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Background on Currency Boards¹

Before analyzing the history of Bermuda's currency board, it is useful to discuss the general history of currency boards and what a currency board is.

So, what is a currency board? The idea of a currency board originated in Great Britain in the early 1800s. An orthodox currency board issues notes and coins convertible on demand into a foreign anchor currency at a fixed rate of exchange. As reserves, it holds low-risk, interest-bearing bonds denominated in the anchor currency. Early currency boards also held some gold or silver. The reserve levels are set by law and are equal to 100 percent, or slightly more, of its monetary liabilities. By design, a currency board has no discretionary monetary powers; it operates as passive and automatic. The sole function of a currency board is to exchange the domestic currency it issues for an anchor currency at a fixed rate. Market forces determine the quantity of the domestic currency in circulation, most importantly, the demand for domestic currency (Walters and Hanke 1992).

Currency boards have existed in about seventy countries. The first currency board was installed in the British Indian Ocean colony of Mauritius in 1849. By the 1930s, they were widespread in British colonies. Currency boards have also existed in a number of independent countries and city-states, such as Singapore. The table below shows a list of recent currency boards and quasi currency boards.

TABLE 1
CURRENCY BOARDS AND CURRENCY BOARD-LIKE SYSTEMS TODAY

Country	System Began	Exchange Rate	Population	GDP (in U.S.\$) ^a
Argentina ^b	1991	1 peso = U.S.\$1	37 million	\$374 billion
Bermuda	1915	Bermuda\$1 = U.S.\$1	62,000	\$1.9 billion
Brunei ^b	1952	Brunei\$1 = Singapore\$1	320,000	\$5.4 billion
Bosnia ^b	1997	1 convertible mark = DM 1	3.5 million	\$5.8 billion
Bulgaria ^b	1997	1 lev = DM 1	8.2 million	\$34 billion
Cayman Islands	1972	Cayman\$1 = U.S.\$1.20	39,000	\$930 million
Djibouti ^b	1949	177.72 Djibouti francs = U.S.\$1	450,000	\$530 million
Estonia ^b	1992	8 kroons = DM 1	1.4 million	\$7.8 billion
Falkland Islands	1899	Falklands£1 = U.K.£1	2,800	unavailable
Faroe Islands	1940	1 Faroese krone = 1 Danish krone	41,000	\$700 million
Gibraltar	1927	£1 = U.K.£1	29,000	\$500 million
Hong Kong ^b	1983	Hong Kong\$7.80 = U.S.\$1	6.8 million	\$168 billion
Lithuania ^b	1994	4 litai = U.S.\$1	3.6 million	\$18 billion

SOURCES: Hanke, Jonung, and Schuler (1993); Central Intelligence Agency (1999).

a. Expressed in terms of purchasing power parity, not at current exchange rates.

b. Currency board-like system.

Source: Hanke (2002).

¹ This section is drawn almost entirely from Hanke (2002). There is no better person to explain the history of currency boards. Note that Table 1 is now partly out of date. Argentina abandoned its currency board-like system in 2002. Estonia and Lithuania have in the last few years replaced their currency board-like systems with membership in the European Central Bank.

History of Bermuda's Currency Board²

In the late 1700s the government of Bermuda apparently issued a small number of notes.³ In the 1800s and early 1900s, though, there was no local issue of note or coins. Bermudians mainly used British currency. The government treasury issued notes from 1915 to 1930, followed by the Bermuda Currency Commission from 1915 to 1969. Bermuda continued to use British coins. The Bermuda Monetary Authority commenced in a legal sense in 1969 and became fully operational in 1970, from which time it also began issuing coins.

The Bermudian pound was established as a unit of account equal to the pound sterling starting in 1842, well before the currency board was established on March 1, 1915. As in the United Kingdom, £1 was equal to 20 shillings (abbreviated "s.") or 240 pence (abbreviated "d."). The currency board initially issued notes of £1, but in later years the range of denominations extended from 2 shillings 6 pence to £10. British coins became unlimited legal tender by the Currency Act of July 1, 1861.

Starting on March 1, 1915, the Government of Bermuda began issuing notes thanks to the newly passed Government Notes Act, No. 5 of 1915. This act was passed because of a shortage of currency and uncertain financial conditions related to the outbreak of World War I (Bermuda annual report 1915: 6). The act authorized the Bermudian government to issue up to 20,000 in £1 notes and made the notes legal tender. To give an idea of the scale of the note issue, the population in 1911 was 18,994, according to the census that year. Further notes would be printed in the following months. The act stated that "the notes under the authority of this Act shall be legal tender in these Islands for all purposes, and such notes shall be redeemable by the Government of these Islands at their face value at such times and in such manner as the Legislature shall hereafter determine." The legislation offered specifics about the offences in relation to Government notes. Forgery was a felony and person found guilty would be liable to imprisonment for five years. There were no specifics in the legislation regarding the kind of reserves that would be held.

British notes were also made legal tender under the Currency Act, No. 21, on August 3, 1915. The act declared it "expedient that British Currency of one pound and ten shilling notes should be made legal tender in these Islands." These were wartime notes issued by the British Treasury, as opposed to Bank of England notes, whose smallest denomination was £5. Previously, Bank of England notes had been customary tender, although not legal tender. U.S. dollar notes were also widely accepted because of the U.S. tourist trade (Bermuda annual report 1915: 6).

On July 23, 1930, the Bermuda Currency Notes Act, No. 52, was enacted. This act reorganized the currency on a sterling exchange standard with explicit 100 percent sterling backing for

² This section describing the legislative history is largely drawn from Krus and Schuler (2014), 25-27.

³ Bermuda, act of 1761 "for raising a sum of money for the use of His Majesty, his Heirs and Successors, as well as for the immediate arming and fitting out of two private vessels of war, &c.," cited in Chalmers (1893: 156-7).

notes. Although in practice the system was already a sterling exchange standard, the 1915 law had established no minimum reserve requirement. Equally as important, the law established the Bermuda Currency Commission. There is no information on how many members the Currency Commission had or how they were appointed. This is interesting because it is unlike most currency board laws. In the absence of any specific information, the most likely possibility is that the Treasurer's office operated the Currency Commission. The next truly significant piece of legislation on the currency board, the Bermuda Currency Notes Act Amendment Act, No. 20, was passed on May 15, 1939. It allowed the governor of Bermuda to demonetize notes by proclamation and set an upper limit of 110 percent on reserves. In a response to wartime conditions, the Bermuda Currency Act, No. 21, was passed in September 1940 to make Bank of England notes legal tender for any amount. On August 4, 1965 the Currency (Bermuda Coin) Act, No. 172, authorized the Currency Commissioners to issue coins on a regular basis.

The Bermuda Currency Commission would last until February 6, 1970, when the Bermuda Monetary Authority (BMA) would replace it.

The Bermuda Monetary Authority Act, No. 57 of February 20, 1969, established the Bermuda Monetary Authority and changed the unit of account from the pounds-shilling-pence Bermudian pound to the decimalized Bermudian dollar. Initially the main function of the BMA was to give effect to an agreement whereby the British government largely guaranteed Bermuda's official sterling reserve from depreciation against the U.S. dollar (BMA annual report 1994: 8). The Bermuda Monetary Authority published a balance sheet in 1969 but did not start issuing currency until February 6, 1970. Since the mid 1972 the system is best described as a quasi currency board. The Bermuda Monetary Authority differs from the Bermuda Currency Commissioners because it has been explicitly been authorized from the start to hold gold, securities in currencies other than sterling, and local assets.

On the day it took over responsibility from the ministry of finance for issuing the currency, the Bermuda Monetary Authority began issued a new currency, the Bermudian dollar. The Bermudian dollar was valued at Bermudian \$2.40 = Bermudian £1. Because the dollar consisted of 100 cents and the pound consisted of 240 pence, the rate of conversion conveniently made 1 pence equal to 1 cent. Old currency, consisting of local sterling-denominated notes and British coins, was demonetized in June 1970 (BMA annual report 1994: 8). The Bermudian dollar was introduced at an exchange rate making it equal to the U.S. dollar. The pound sterling at the time was pegged to the U.S. dollar.

From July 31, 1972 until May 21, 1981 the Bermudian dollar was worth 0.818513 grams gold (again, equal to US\$1 at the time). The United Kingdom had floated the pound sterling on June 23, 1972, and in response, the governor of Bermuda ordered on July 28, 1972 that the new parity of the Bermudian dollar would be 0.818513 grams of fine gold, equal at the time of the U.S. dollar (BMA annual report 1994: 8). It was thought to be advantageous to make the Bermudian dollar equal to the U.S. dollar because of the importance of American tourists to the economy. In the weeks after the pound sterling floated in June 1972, the Bermudian dollar became worth more than the U.S. dollar. This was a disadvantage not only to American tourists,

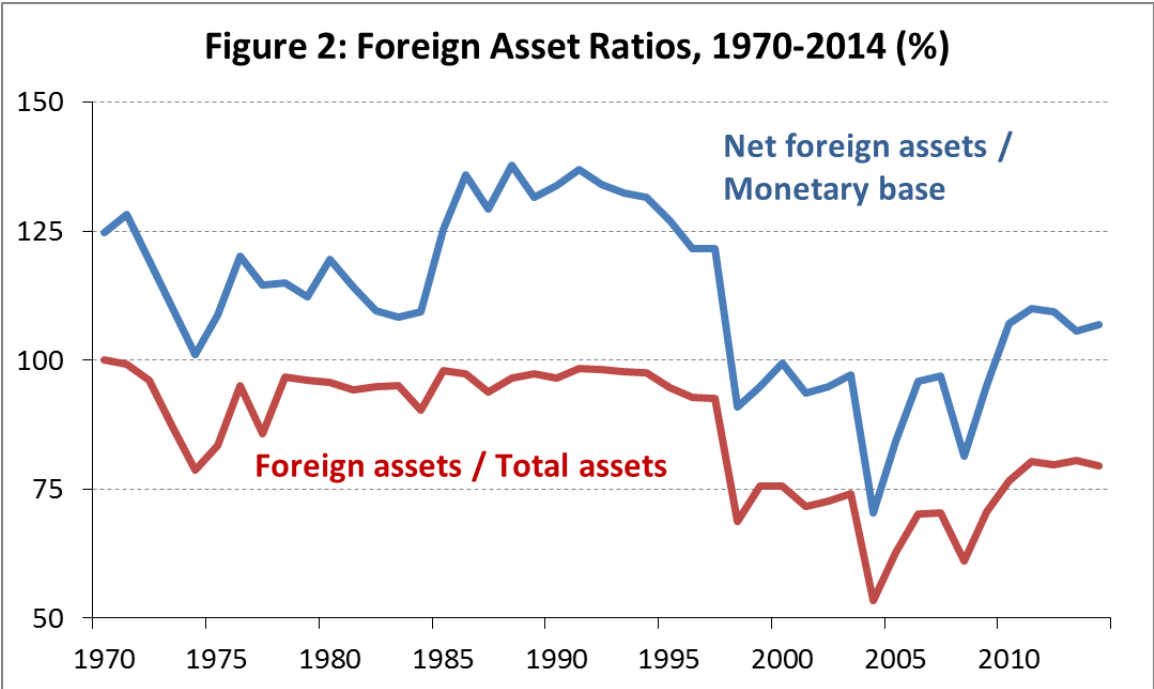
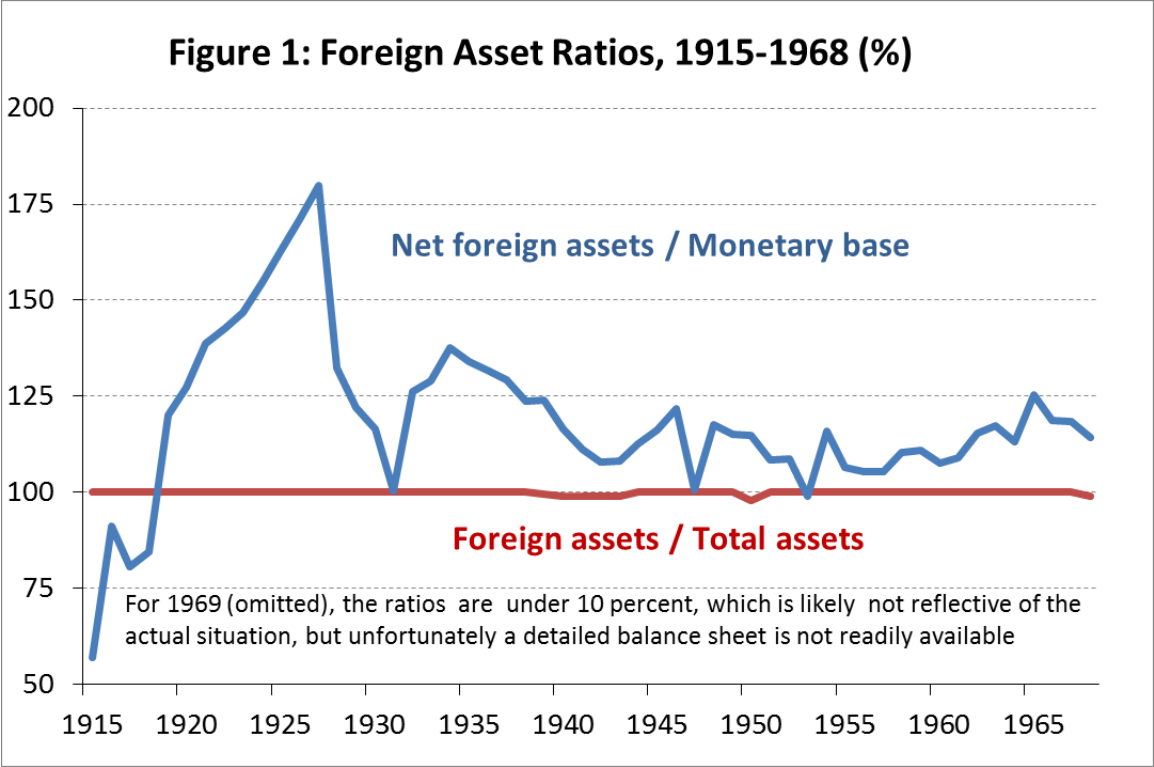
but also to local retailers. Bermuda therefore in effect switched to the U.S. dollar as the anchor currency because of its strong trade and financial links with the United States (Bermuda Monetary Authority annual report 1994: 8).

May 22, 1981, the Bermudian Dollar Parity Order was passed. It established the Bermudian dollar as “equivalent to one dollar in the currency of the United States of America” and ceased all references to gold. Thereafter, the Bermudian dollar has remained equal to the U.S. dollar to the present day (BMA annual report 1994: 10).

After Bermuda left the sterling area and switched to the U.S. dollar as its anchor currency in mid 1972, it retained exchange controls against the U.S. dollar to prevent capital flight that otherwise would have occurred because of a ceiling of 7 percent on interest rates, imposed by Bermuda’s Interest Act of 1861. This and other changes described below made Bermuda’s monetary system no longer an orthodox currency board.

The Data and Our Tests

We transcribed annual balance sheet data on the government note issue, the Bermuda Currency Commission, and the Bermuda Monetary Authority from 1915 to 2014. The main source for the government note and Currency Commission periods was the *Bermuda Gazette*, with additional information being gathered from Bermuda’s *Blue Book* (statistical abstract) and the colonial report published by the British government based on the Blue Books and other information supplied by colonial administrators. The main source for the Bermuda Monetary Authority period was the annual reports of the BMA. No balance sheet data were available for 1973 because we could find no annual report for the BMA, or any statement in the *Bermuda Gazette*. We wrote to the BMA to see if they had the 1973 annual report but received no response. Some earlier statements are also missing, either because the *Gazette* did not publish data or because we could not find the relevant issues of the *Gazette* at the Library of Congress, where we searched for primary source material. We also performed tests on the balance sheet items of the Bermuda Currency Commission and the BMA. It should be mentioned that it is harder to distinguish domestic assets from foreign assets in the BMA balance sheet than it is in the Currency Commission balance sheet. Hence, there is a greater chance of erroneous calculations based on misclassification of assets.



Test #1: Foreign Assets, Domestic Assets, and the Monetary Base

Figures 1 and 2 show foreign assets as a percentage of the monetary base. In an orthodox currency board system, the percentage of net foreign assets to the monetary base is at least 100 percent. There is also an upper bound, typically no greater than 115 percent. This provides a cushion to maintain reserves of 100 percent should interest-earning assets fall in value, but prevents sterilization of capital inflows. Another point to note is that for an orthodox currency board, domestic assets should be close to zero.

We compiled balance sheets from 1915 until 2014 to test whether the Bermuda Currency Board had full reserve backing. The financial statements from 1915 to 1931 as originally published do not show foreign deposits and certain other assets. From 1932 onward these statistics appear in the *Gazette*, and they seem to list all assets. It is important to keep in mind however that the *Gazette* typically only lists notes in circulation and omits net worth on the liability side. The BMA balance sheets, on the other hand, are fully balanced, showing assets equal to liabilities.

Where data were unavailable and interpolation seemed reasonable, we interpolated based on prior and subsequent data. There are two different graphs below showing the percentage of assets in reserve to the local notes in circulation below: one for 1915- 1969, the government issue-Currency Commissioners / pounds-shilling-pence period, and the other since 1970, the Bermuda Monetary Authority / dollar period.

From 1915-1968, Bermuda was the epitome of an orthodox currency board. During that period, as seen in Figure 1, the percentage of foreign assets to the monetary base hovered at the 100 percent mark (the lowest point being 99.8 percent), an indication of an orthodox currency board. The year 1969 has been omitted because of the balance sheet change and the difficulty of disentangling foreign from domestic assets in that year's balance sheet. It should also be noted that most of the assets in the balance sheets in 1969 were classified as domestic, although they were probably foreign. Unfortunately, details are lacking, though the high ratios of foreign assets in the 1968 and 1970 balance sheets suggest that it is unlikely that the ratios plunged for 1969 only to recover the next year.

On July 25, 1970, Bermuda changed its unit of account from the pound to the dollar. The Bermudian dollar, although equal to the U.S. dollar, was defined in terms of the pound sterling as its anchor. On June 30, 1972, the Bermuda Monetary Authority Act 1969 was amended to allow the parity of the Bermuda dollar to be defined in terms of any currency or gold, not just sterling as before (BMA annual report 1994: 8). On September 1974, 1973, the 1968 agreement with the British government that largely guaranteed sterling reserves from devaluation against the U.S. dollar expired. Within a little over a month, the proportion of sterling in the BMA's reserves fell from 65 percent to less than 13 percent (BMA annual report 1994: 9). By 1974 the BMA's foreign assets had fallen to 79 percent of total assets, as Figure 2 shows. Domestic assets correspondingly rose from 4 percent in 1972 to 21 percent in 1974. Because we were unable to locate copies of the 1973 and 1974 BMA annual reports, we could not find what the BMA said

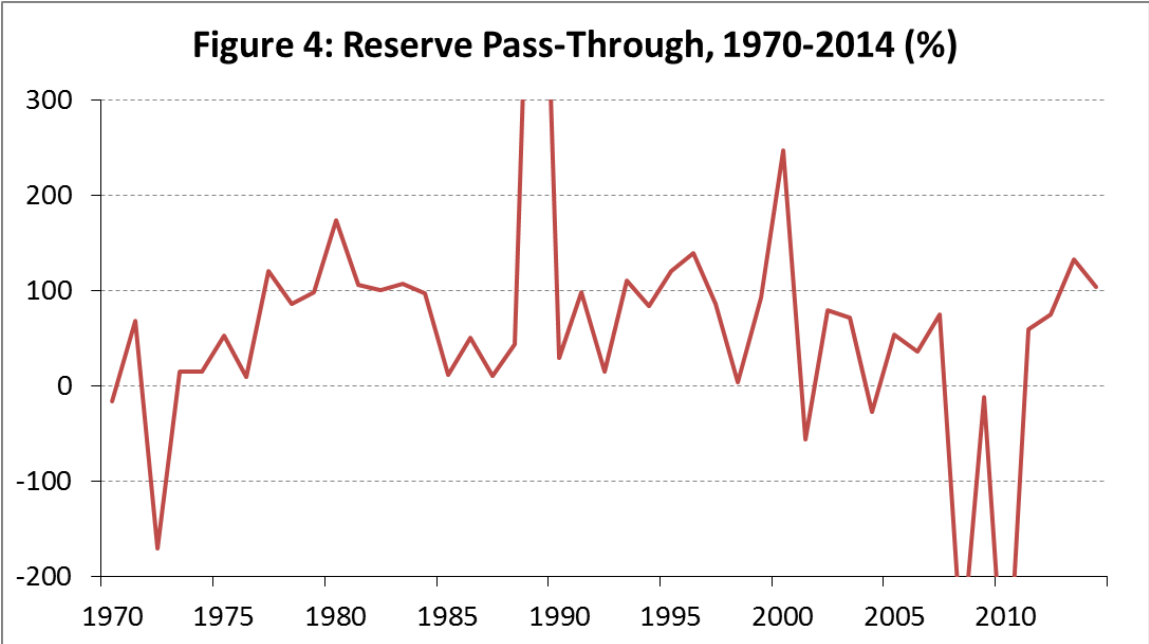
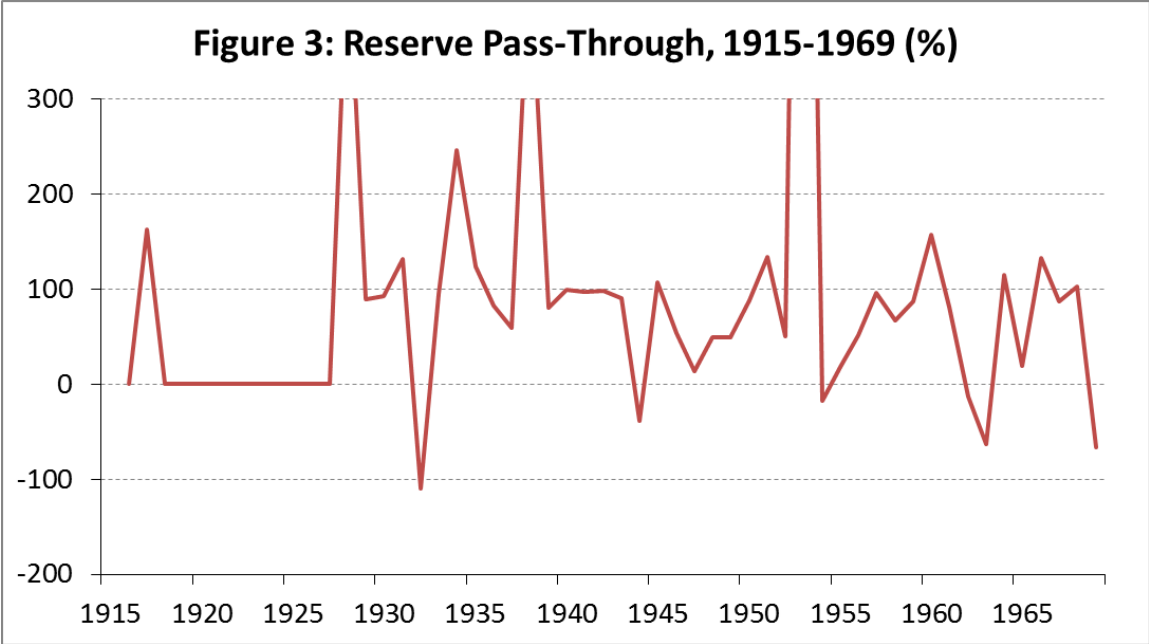
about the reasons for this change. (The 1975 annual report has balance sheet data for 1974 but commentary only on 1975.) The percentage of foreign assets to total assets never again reached the 100 percent mark after 1970, and often it has been at about 80 percent or below, suggesting that the BMA has functioned as a quasi currency board, whereas the Commissioners of Currency were more orthodox.

Test #2: Reserve Pass-Through

Another test for orthodoxy is a reserve pass-through test. It measures year-over-year change in the monetary base divided by year-over-year change in net foreign reserves. Measuring on a year-over-year basis tends to eliminate any seasonal effects and diminish the importance of one-time events such as extraordinary distributions or retentions of profit. For an orthodox currency board, reserve pass-through should typically be close to 100 percent—in practice, within the 80-120 percent range (Hanke 2008: 58).

Bermuda's reserve pass-through fluctuated quite frequently beyond those limits, as Figures 3 and 4 show. There are a number of reasons for the fluctuations. The Commissioners of Currency omitted from its published financial statements some less important items that would have been published in comprehensive balance sheets. For some early years, notes in circulation remained unchanged while the currency board was earning interest on some of its assets. Such cases illustrate a shortcoming of the reserve pass-through test, which is that it works better when there is substantial change in the monetary base, on the order of a few percentage points a year or more, than when change is small or absent.

It is also important to mention that in the BMA balance sheet it is much harder than in the currency board balance sheet to distinguish foreign from domestic assets, so the results in Figures 2 and 4 for the BMA period are less certain than they are for the Currency Commission period. We could not find data for 1973 because we could not locate a copy of the BMA's annual report for the year, so we interpolated the data.



Test #3: Comparison of the Absolute Change in the Monetary Base to the Absolute Change in Net Foreign Assets

Comparing the pound (or dollar) change in the monetary base to the pound (or dollar) change in net foreign assets is good for helping to identify situations where the reserve pass-through ratio is fluctuating because of a small numerator or a small denominator. Those situations need not represent deviations from currency board orthodoxy. The reader can see from Figure 5 that 1969 was a strange year. As mentioned above, the BMA was established in 1969, and one of its first decisions was to change the unit of account from the pounds-shilling-pence Bermudian pound to the decimalized Bermudian dollar. With this change in organization, and therefore the change in the balance sheet, it was difficult to disentangle foreign from domestic assets that year. It should also be noted that most of the assets in the balance sheets in 1969 were classified as domestic, although they were probably foreign. This is the reason for the significant increase in net foreign assets as shown in Figure 5.

Bermuda's Current Economy⁴

Bermuda's ties to U.S. businesses and U.S. tourism have led Bermuda to maintain the Bermudian dollar equal to the U.S. dollar. Bermuda's luxury tourist facilities attract around 360,000 visitors annually, causing its tourist industry to account for 28 percent of GDP.

The Bermuda Overseas Investment Tax Amendment Act, No. 9 of 1986 converted the tax on investments into a tax on foreign currency, with the exceptions of travel, personal imports and other purposes (Krus and Schuler 2014: 27). This has caused international business to blossom, as it contributes to over 60 percent of Bermuda's economic output. A failed independence vote in 1995 can partially attributed to Bermuda's fears of scaring away its foreign firms. More than 12,500 foreign companies have a legal presence in in Bermuda, many U.S. owned. This can be attributed in part to the Bermudian dollar being pegged against the U.S. dollar and the resulting confidence it inspires in the currency.

⁴ The data in this section are taken from Forbes' *Bermuda's Economy*.

Figure 5: Absolute Changes, 1915-1969 (B£)

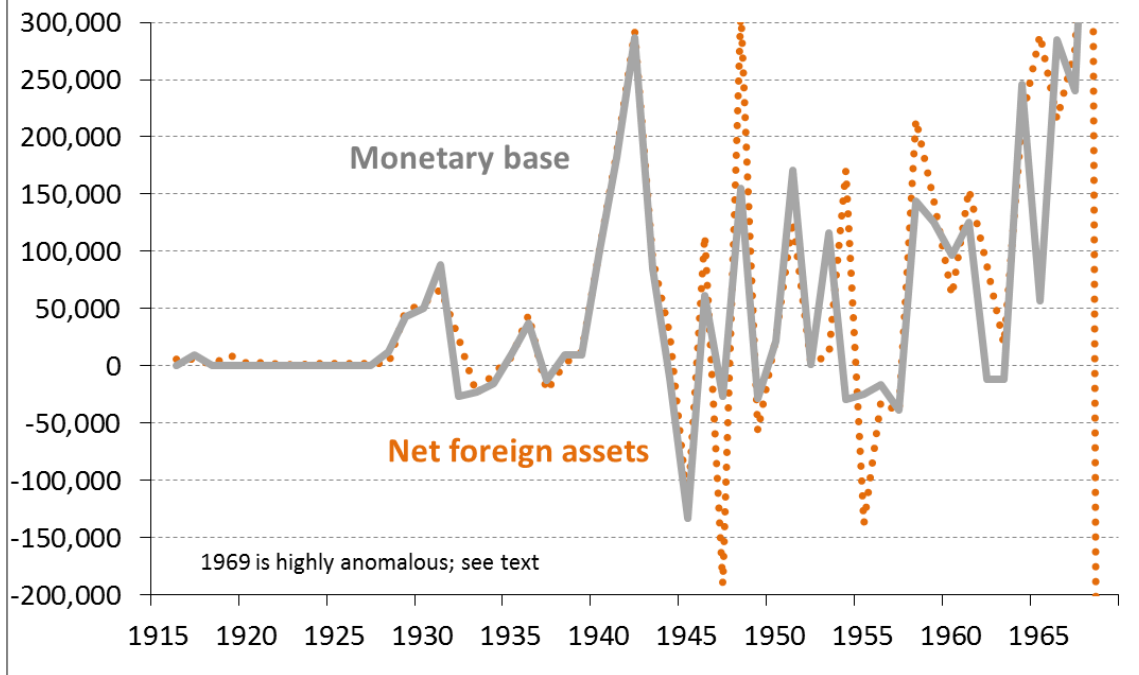
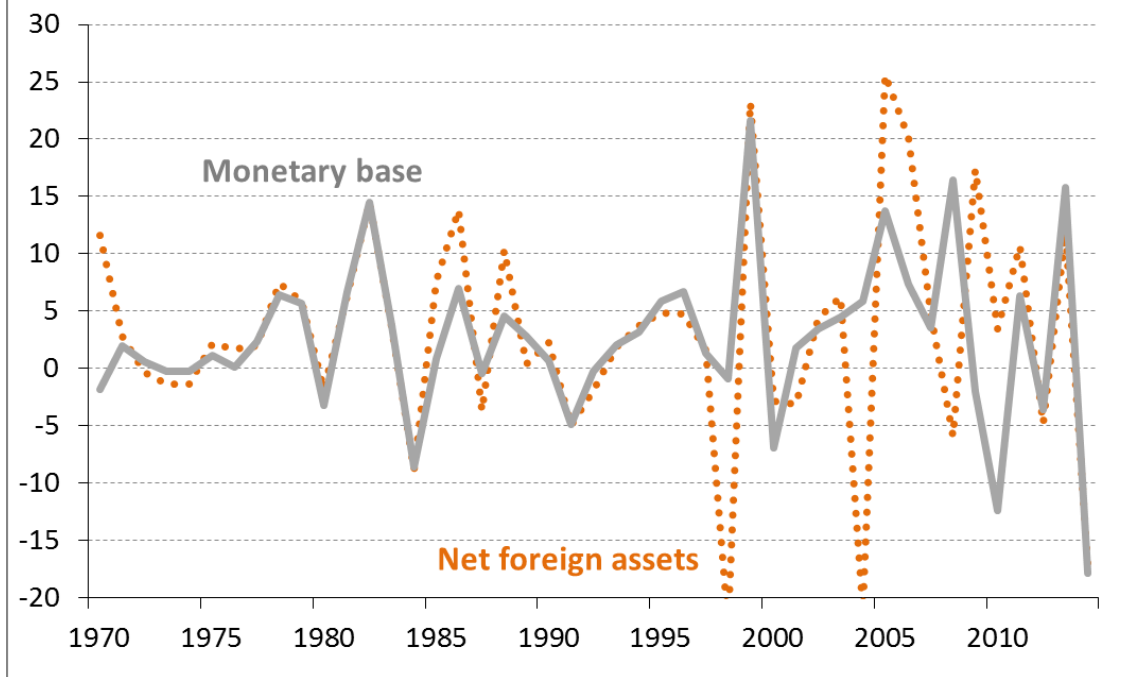


Figure 6: Absolute Changes, 1970-2014 (million B\$)



Bermuda's Exchange Control⁵

Bermuda's currency board is an interesting case because there is no other currency board or currency board-like system that has had long-term exchange control into the anchor currency.

In 1939 Bermuda introduced exchange controls shortly after World War II broke out in Europe (BMA annual report 1990: 30). Controls were applied to transactions outside the sterling area and did not affect the free exchangeability of Bermudian currency into the pound sterling. Therefore the currency board remained orthodox.

After Bermuda left the sterling area and switched to the U.S. dollar as its anchor currency in mid 1972, it retained exchange control to prevent capital flight that otherwise would have occurred because of a legally imposed ceiling of 7 percent on interest rates, imposed by the Bermuda Interest Act of 1861. Hence the system was no longer an orthodox currency board. The Bermuda Monetary Authority assumed responsibility for exchange control (BMA annual report 2008: 4); formerly, the Ministry of Finance had been responsible. In 1974 it should be noted that an amendment to the Bermuda Monetary Authority Act gave the BMA further responsibility for exchange control (BMA annual report 1994: 9).

In 1980, the BMA raised the amounts of foreign currency that Bermudians could purchase for travel and school fees abroad, to take account of the effects of inflation previous years. On the other hand, it tightened limits on overseas investment, by setting a quarterly rather than an annual maximum amount (BMA annual report 1980: 12). The quarterly restriction was removed at the end of June 1981 (BMA annual report 1994: 10). Exchange control regulations required that local transactions be in Bermuda dollars. The 1982 annual report defends exchange control as preserving Bermuda's international business reputation by providing for screening of new companies and subsequent transfers of shares involving nonresidents (BMA annual report 1982: 15).

Finally, in 1987, exchange controls were relaxed. An example of this was an increase in the travel allowance from Bermuda was increased from \$3,000 per person per trip to \$5,000 (BMA annual report 1987: 20). The loosening of exchange controls would continue in 1993 and 1996 as well. In 1993, the Bermuda Monetary Authority claimed that Bermuda's exchange controls could now be fairly described as a system of capital controls (BMA annual report 1993: 27-28), implying that previously, controls could be said to have applied to certain current-account transactions also. On December 1, 1996 there was a further loosening of exchange controls. Bermuda residents were permitted to borrow in foreign currency to refinance residential property in Bermuda (BMA annual report 1996: 5, 32).

Bermuda's Financial Center⁶

⁵ This section describing Bermuda's exchange control is largely drawn from Krus and Schuler (2014: 29).

⁶ The facts in this section are taken from Forbes' *Bermuda's Banking Scenario* and Forbes' *Bermuda's Advantages for International Insurance Companies Registration*.

Bermuda in recent decades has risen to become a global financial center, especially in the insurance sector. To state the facts, Bermuda re-insurers make up about 36 percent of the global reinsurance markets based on property/casualty net premiums earned, according to A.M. Best Co. Bermuda is also the largest center for captive insurance in the world, with over 1,200 captive insurance companies alone. Bermuda can also claim to the top spot for offshore financing. At least 13 of the world's top 40 reinsurers are based in Bermuda. Bermuda also remains the world's number one captive domicile overall. The bulk of Bermuda's captives are U.S.-owned entities, often used to insure and reinsure retentions on general liability, auto liability, workers compensation, and property.

It is interesting that Bermuda is such a large player in the insurance industry despite its small size as a territory (20.6 square miles with a population of roughly 65,000 people). If Bermuda is at a financial disadvantage due to its size, what are the advantages it has that have enabled it to develop a financial center?

First, a U.S. (or other) company that incorporates in Bermuda does not have to pay corporate income taxes on money earned outside the United States because of a tax treaty (embodied in Bermudian law in the U.S.A.-Bermuda Tax Convention Act, 1986). A U.S. firm can also borrow money from a Bermuda umbrella company, but the interest it pays, which is a tax write-off, goes back to the parent.

Being a British territory is another advantage. With the stability of the British legal tradition, foreign investors feel safe conducting business with Bermuda. (In fact, most of the world's most notable offshore financial centers other than Luxembourg have legal systems based in British law: Hong Kong, Singapore, the Cayman Islands, the Bahamas, the Channel Islands, Gibraltar, and Bermuda.) There is confidentiality with privacy. Policyholders do not need to disclose the existence of the policy to any entity. Therefore, insurance policies are generally exempt from disclosure because they are recognized as a contractually based agreement between the individual and an insurance company and not as a financial account. Unless directed by the Bermuda government, it is required by Bermuda law to withhold all information relating to any policyholder or policy regardless.

A stable currency is another advantage. By being pegged to the U.S. dollar, people do not have to worry about the currency being volatile. People are also reassured the Bermudian government won't try to use monetary policy to take wealth from them.

Another reason for Bermuda's success is that is that insurers in most countries cannot accept premium payments other than in local currency. Under certain circumstances, Bermudian insurance companies can structure policy to allow the contribution of premiums to be made in kind. This offers significant flexibility for clients who have the need for the advantages of various types of insurance policies yet choose not to liquidate significant assets to acquire insurance benefits.

The Bermuda Monetary Authority has evolved since the days of its creation. The BMA has changed from mainly a monetary agency to predominantly a financial regulatory agency. Its monthly Assessment and Licensing Committee (ALC) reviews insurance applications. The BMA maintains an effective regulatory framework that meets relevant international standards while fostering an environment that remains attractive to business that enables growth.

While Bermuda is known for its offshore international insurance companies, it is not an international banking center. There are only four banks allowed by island laws to operate in the local market. The four banks are HSBC Bank of Bermuda Limited, Bank of N. T. Butterfield and Son Limited, Bermuda Commercial Bank Limited (BCB), and Clarien Bank Limited. HSBC Bank of Bermuda Limited, established in 1889 and formerly known as Bank of Bermuda Limited, is the largest and most profitable Bermudian bank. It accounts for about 47 percent of the local banking market. Bank of N. T. Butterfield and Son Limited is the oldest and second-largest bank on the island. It accounts for 40 percent of the banking market.

Bermuda has apparently never suffered a financial crisis during the last century besides the affair of the Bermuda Provident Bank, a small bank that was near failure in 1978 when it was taken over by the Bermuda Monetary Authority (BMA annual report 1978: 5). However, Dr. Marcelo Ramella, a researcher at the Bermuda Monetary Authority, has said the global financial crisis of 2008 hit Bermuda harder than the rest of the world. At a speech at the Royal Hamilton Amateur Dinghy Club in 2013, Dr. Ramella said that Bermuda's and any economy's "concentration on one sector of the economy makes you vulnerable." He suggested that Bermuda needed to bring in more hard currency to boost GDP and pay off debt (*Royal Gazette* 2013). Dr. Ramella's suggestions seem to have been heard, as the BMA's foreign assets rose from roughly B\$143 million to B\$153 million in 2013.

Conclusion

The history of the Bermuda currency board (established in 1915) was rather uneventful until 1970, when the Bermudian pound was substituted for the Bermudian dollar and thus decimalizing the currency. Since 1972 when the Bermudian dollar was officially pegged against the U.S. dollar, Bermuda has operated as a quasi currency board. Bermuda's monetary stability seems to have been one factor, though not necessarily a big one, in the territory's development as an important offshore financial center, especially for insurance. The financial system has not experienced any episodes of general panic over the last 100 years and few troubles of any kind.

Postscript: Companion Spreadsheet Workbook and Source Documents

The companion spreadsheet workbook to this paper contains the underlying data, calculations, and the original versions of the graphs above. The workbook also contains some data not used in the paper.

Appendix A. Legislative History of Bermudian Note Issue, 1915-2006⁷

- Bermuda, Government Notes Act, No. 5, 19 February 1915: Established government note issue.
- Bermuda, Currency Act, No. 21, 3 August 1915: Made government notes legal tender.
- Bermuda, Currency Act, No. 21, 3 August 1915: Made government notes legal tender.
- Bermuda, Government Notes Redemption Act, No. 22, 3 August 1915: Established the Bermuda Investment Trustees to supervise the invested assets backing government currency notes.
- Bermuda, Government Notes Redemption Act, No. 9, 10 March 1917: Authorized an issue of £10,000 in £1 notes.
- Bermuda, Government Notes Act, No. 16, 18 June 1920: Authorized emergency notes of 2.5 shillings (not issued) and 5 shillings to combat a shortage of silver coin.
- Bermuda, Currency Act, No. 40, 28 December 1920: Notes that have been demonetized in the United Kingdom may be demonetized in Bermuda by proclamation of the governor.
- Bermuda, Government Notes Act, No. 15, 8 April 1927: Authorized a new note design.
- Bermuda, Bermuda Currency Notes Act, No. 52, 23 July 1930: Reorganized the currency on a sterling exchange standard with explicit 100 percent sterling backing for notes. Established the Bermuda Currency Commissioners.
- Bermuda, Bermuda Currency Notes Act, No. 40, 8 November 1935: Authorized 5-shilling notes.
- Bermuda, Bermuda Currency Notes Act Amendment Act, No. 20, 15 May 1939: Allowed the governor to demonetized notes by proclamation; set an upper limit of 110 percent on reserves.
- Bermuda, Currency Act, No. 21, 14 September 1940: Made Bank of England notes legal tender for any amount. (A response to wartime conditions.)
- Bermuda, Bermuda Currency Notes Act, No. 26, 18 June 1941: Authorized £5 notes.
- Bermuda, Special Coin (Commemorative) Act, 1958: Authorized commemorative coins.
- Bermuda, Bermuda Currency Notes Act, No. 191, 16 December 1963: Authorized £10 notes.
- Bermuda, Currency (Bermuda Crown) Act, 1964: Authorized a commemorative crown coin.
- Bermuda, Currency (Bermuda Coin) Act, No. 172, 4 August 1965: Authorized the Bermuda Currency Commissioners to issue coins on a regular basis. 27
- Bermuda, Bermuda Monetary Authority Act, No. 57, 20 February 1969: Established the Bermuda Monetary Authority and changed the unit of account from the pounds-shilling-pence Bermudian pound to the decimalized Bermudian dollar.
- Bermuda, Exchange Control Act, No. 109, 1972: Established exchange controls applicable even with the anchor currency.
- Bermuda, Exchange Control Regulations, Statutory Rules and Orders No. 21, 1 May 1973: Gave details of exchange controls.

⁷ This list is taken from Krus and Schuler (2014: 26-27).

- Bermuda, Bermudian Dollar Parity Order, 22 May 1981: Established the parity of the Bermudian dollar as “equivalent to one dollar in the currency of the United States of America” and ceased reference to gold.
- Bermuda, Overseas Investment Tax Amendment Act, No. 9, 1986: Converted the tax on foreign investment into a tax on the purchase of foreign currency, with exceptions for travel, personal imports, and some other purposes.
- Bermuda, Bermuda Monetary Authority Amendment Act, No. 27, 24 July 2006: Made a number of minor changes to the law on the Bermuda Monetary Authority.
- There do not seem to have been any relevant legislative enactments since 2006.

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