

EBS/84/208

CONFIDENTIAL

October 4, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Trinidad and Tobago - Real Effective Exchange Rate -
Information Notice

There is attached for the information of Executive Directors an information notice on a change in the real effective exchange rate of the Trinidad and Tobago dollar.

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. G. G. Johnson (ext. (5)8671).

Att: (1)



INTERNATIONAL MONETARY FUND

TRINIDAD AND TOBAGO

Real Effective Exchange Rate--Information Notice

Prepared by the Western Hemisphere Department and
the Exchange and Trade Relations Department

(In consultation with the Legal Department
and the Research Department)

Approved by E. Wiesner and S. Kanesa-Thasan

October 3, 1984

The recent evolution of the real effective exchange rate of Trinidad and Tobago, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of July 1984 the Trinidad and Tobago dollar has appreciated by more than 10 percent since the last occasion on which the Executive Board had an opportunity to discuss Trinidad and Tobago's exchange rate policy--the 1983 Article IV consultation in November 1983. The appreciation is estimated to have amounted to 10.4 percent.

The Trinidad and Tobago dollar has been pegged to the U.S. dollar at a rate of TT\$2.40 per U.S. dollar since 1976. The strength of the U.S. dollar, combined with a rate of inflation in Trinidad and Tobago higher than that in its trading partners, has resulted in a real appreciation of the Trinidad and Tobago dollar of over 60 percent since 1980. The rate of inflation remains relatively high, amounting to 12 percent over the year ending July 1984.

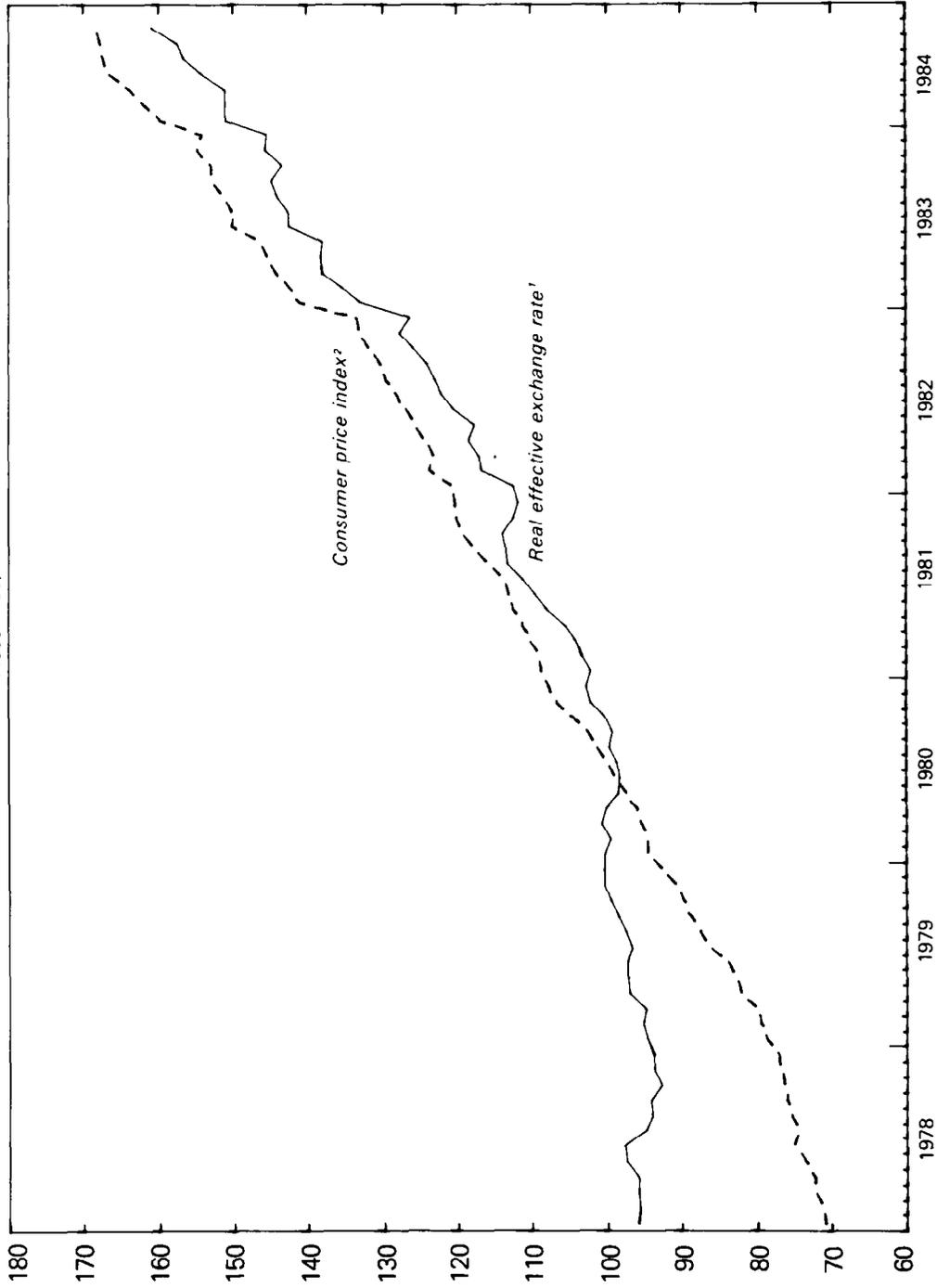
The decline in competitiveness has adversely affected Trinidad and Tobago's external position at a time when both the price and the volume of the major export, petroleum, have been declining. In 1982 expansionary monetary and fiscal policies, including large and retroactive public sector wage increases, contributed to an increase in imports of nearly 40 percent, while export earnings declined by 15 percent. Despite higher official foreign borrowing, there was an overall deficit of US\$260 million, the first in almost a decade. Exports fell by a further 20 percent in 1983, and despite a reduction in imports, in part as a result of import controls imposed in October 1983, official reserves declined by almost US\$1 billion. During the first seven months of 1984 official reserves fell by an additional US\$350 million, to little more than half their end-1982 level, though they were still equivalent to eight months of imports at the rate recorded in 1983.

While continuing to limit imports through restrictions, early in 1984 the authorities also took action toward balance of payments adjustment through measures aimed at reducing the country's fiscal deficit, which had reached nearly 15 percent of GDP in 1983. Cuts were made in capital spending and in transfers and subsidies, certain taxes were increased, and gasoline prices and water rates rose sharply.

Staff Appraisal

In the staff report for the 1983 Article IV consultation, the staff appraisal noted that "rapidly increasing domestic costs and the more than 30 percent effective appreciation of the Trinidad and Tobago dollar since 1977 have contributed to the poor performance of traditional exports, and of import competing industry. The authorities would be well advised to consider exchange rate adjustment as a means of strengthening international competitiveness and complementing demand policies in achieving the external adjustment that is needed." Since then the balance of payments pressures have continued, and there has been an intensification of import restrictions. The authorities consider Trinidad and Tobago's moderate external indebtedness and high level of foreign reserves provide room for a gradual adjustment to the reduction in real income that has occurred since 1982. During the forthcoming 1984 Article IV consultation discussions the staff will emphasize the need for a comprehensive program to adjust aggregate demand and relative prices in order to restore external balance and reduce reliance on import restrictions.

TRINIDAD AND TOBAGO
INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE
(1980=100)



¹ Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices, increase mean appreciation.

² Seasonally adjusted consumer price index.



Table . Trinidad and Tobago: Real Effective Exchange Rate and Related Series

(Indexes: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currency)	Exchange Rate (U.S. dollars per National Currency)	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
<u>Quarterly</u>						
1978						
I	95.7	103.2	92.7	100.0	71.3	71.6
II	96.9	103.4	93.7	100.0	73.5	73.2
III	94.3	100.6	93.8	100.0	75.2	75.3
IV	93.5	99.7	93.7	100.0	76.7	76.8
1979						
I	94.9	100.3	94.6	100.0	79.3	79.6
II	97.2	100.9	96.3	100.0	82.9	82.5
III	97.6	99.5	98.0	100.0	87.5	87.5
IV	100.1	101.4	98.7	100.0	90.9	90.9
1980						
I	100.3	101.2	99.1	100.0	94.8	95.3
II	99.0	100.5	98.6	100.0	97.5	97.1
III	99.2	99.1	100.2	100.0	101.4	101.3
IV	101.8	99.5	102.3	100.0	106.5	106.2
1981						
I	103.3	101.0	102.3	100.0	109.4	110.2
II	107.7	105.2	102.4	100.0	112.3	111.9
III	112.8	109.5	103.0	100.0	115.8	115.7
IV	112.8	108.1	104.4	100.0	120.0	119.5
1982						
I	115.6	110.0	105.0	100.0	122.6	123.6
II	119.0	112.4	105.9	100.0	125.8	125.5
III	123.2	115.0	107.1	100.0	129.5	129.2
IV	126.8	116.7	108.6	100.0	132.9	132.1
1983						
I	135.5	117.2	115.6	100.0	142.5	143.9
II	139.6	118.3	118.0	100.0	147.3	147.2
III	143.8	120.5	119.3	100.0	151.3	150.9
IV	144.8	121.4	119.3	100.0	154.0	153.0
1984						
I	151.1	122.4	123.4	100.0	161.7	163.3
II	156.1	123.8	126.1	100.0	167.3	167.1
<u>Monthly</u>						
1983						
November <u>3/</u>	145.7	121.3	120.1	100.0	154.8	153.1
December	145.5	122.5	118.8	100.0	154.1	153.1
1984						
January	151.0	123.3	122.5	100.0	159.6	161.8
February	151.1	122.5	123.4	100.0	161.8	163.9
March	151.0	121.5	124.3	100.0	163.7	164.2
April	154.2	122.4	125.9	100.0	166.5	167.5
May	156.6	124.1	126.2	100.0	167.4	166.9
June	157.5	124.7	126.3	100.0	167.9	166.9
July	160.8	127.4	126.3	100.0	168.4	169.3
Percentage change						
November 1983-						
July 1984	10.4	5.0	5.1	--	8.8	10.6

1/ Increases mean appreciation.

2/ Using seasonally adjusted price indexes.

3/ Date of latest consideration by Executive Board.

