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EBS/86/1

CONFIDENTIAL

January 3, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Trinidad and Tobago - Exchange System

There is attached for the information of the Executive Directors a paper on recent modifications in the exchange system of Trinidad and Tobago.

Mr. Fajgenbaum (ext. 7161) is available to answer technical or factual questions relating to this paper.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Trinidad and Tobago--Exchange System

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

(In consultation with the Legal Department)

Approved by E. Wiesner and E. Brau

January 2, 1986

In the attached communication the Trinidad and Tobago authorities notified the Fund of modifications to the country's exchange system as part of a set of measures introduced in conjunction with the 1986 Budget. Effective December 18, 1985 the exchange rate of the Trinidad and Tobago dollar was adjusted from TT$2.40 per U.S. dollar to TT$3.60 per U.S. dollar, but the previous exchange rate will continue to apply to imports of essential food items, drugs, certain agricultural inputs, and school books. Since imports eligible for the TT$2.40 per U.S. dollar exchange rate are estimated to account for less than one fourth of total imports, the average depreciation of the Trinidad and Tobago dollar was about 30 percent for merchandise transactions. At the same time, the authorities eliminated the 10 percent tax on sales of foreign exchange for travel abroad and emigrant's remittances, which had been in effect since January 9, 1985.

The staff welcomes the adjustment of the exchange rate for the Trinidad and Tobago dollar, which is in accord with the recommendations made in the last Article IV Consultation (SM/85/92). Prior to this change, the Trinidad and Tobago dollar had appreciated in real effective terms by about 63 percent since 1980. The staff also welcomes the abolition of the tax on sales of foreign exchange. The staff would encourage the authorities to eliminate as soon as possible the subsidies emerging from the dual exchange rate system and to keep the adequacy of exchange rate policy under review.

The dual exchange rate system results in a multiple currency practice which is subject to approval by the Fund under Article VIII, Section 3 of the Articles of Agreement. A staff team is expected to visit Port of Spain in April 1986 to conduct the 1986 Article IV consultations with Trinidad and Tobago. The consultation report will contain a description and appraisal of the recent economic measures and changes in exchange arrangements. No action by the Executive Board is proposed at this time.

Attachment

ATTACHMENT

TRINIDAD AND TOBAGO
DECEMBER 17, 1985

TO: MR. JACQUES DE LAROSIERE
MANAGING DIRECTOR
INTERFUND
WASHINGTON D.C.
U.S.A.

HON. GEORGE CHAMBERS, MINISTER OF FINANCE AND PLANNING AND GOVERNOR FOR THE FUND WISHES TO INFORM THE FUND OF THE FOLLOWING POLICIES AFFECTING EXCHANGE RATE ARRANGEMENTS ANNOUNCED IN THE 1986 BUDGET SPEECH:

(1) WITH EFFECT FROM WEDNESDAY DECEMBER 18 1985 THE PAR VALUE OF THE TRINIDAD AND TOBAGO DOLLAR IS 0.277778 OF THE PAR VALUE OF THE U.S. DOLLAR (I.E. TT$ 3.60 = US$ 1.00)

(2) IMPORTS OF ESSENTIAL FOOD, DRUGS AND INPUTS INTO AGRICULTURE WILL BE EFFECTED AT THE RATE OF 0.416667 TRINIDAD AND TOBAGO DOLLARS PER U.S. DOLLAR (I.E. TT$ 2.40 = 1.00)

(3) THE TAX OF 10 PERCENT ON SALES OF FOREIGN EXCHANGE FOR VACATION AND BUSINESS TRAVEL AND EMIGRANT'S REMITTANCES IS ABOLISHED WITH IMMEDIATE EFFECT.

EURIC BOBB

ALTERNATE GOVERNOR
TRINIDAD AND TOBAGO