

■ Forex shortage forces possible policy shift...

HOWAI SIGNALS INTEREST RATE HIKE

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INTEREST rates will have to go up in Trinidad and Tobago to deal with the increasing shortage of foreign exchange. This is one of the measures outlined by Central Bank Governor Larry Howai at an engagement with the media yesterday at the Central Bank in Port of Spain.

Howai said the forex problem was 'reflective of a basic underlying disequilibrium between demand and supply. Supply is far less than demand.'

'We need to address some monetary policy issues-the interest rate is one. And I have signalled to the business community something that they don't want to hear necessarily, (which is) that interest rates will have to go up. But on the other hand, they want to hear it because many businesses export and when they export they say when they bring their money back, they're not getting a competitive rate of interest. So we have to increase the rate of interest so that businesses can get a competitive rate when they bring their money back to Trinidad and Tobago.

'And they will have incentive to bring it back rather than leaving it outside. So we have more US dollars going into the system. Some of that may not be available for sale...But nevertheless, it affords us more flexibility, the more (US dollars) that we can bring back into Trinidad and Tobago. So interest rates will have to go up.' He continued: 'Liquidity will probably become a little bit more constrained, foreign exchange may have to be managed tighter, and consumption patterns may have to be addressed because the overall level of demand will have to be addressed in some way.'

Howai stated: 'We have not made final decisions on the various initiatives just yet. And part of my meetings with the business community, with the general public, with the media and so on, is really to start signalling some of the things and measures that we have to put in place as we move forward. Selective credit controls, for example. What we mean by that is that in the old days we used to have a restriction on how much consumer lending banks could do. And we used to control it by moral suasion. We don't have legislative support for doing that kind of thing right now, but we can use some moral suasion, to some extent, in order to limit the amount of consumption. Of course, that is an extremely difficult thing to do in a liberalised economy. As everyone knows credit card lending did not exist 30 years ago. Today, credit card lending supports Trinidad and Tobago consumption and international consumption. So how we control that is something that will require a lot more thought.'

US\$6 billion sold in T&T every year Howai said credit card usage of the foreign reserves had grown from US \$765 million a year back in 2013 to US\$2.317 billion at present, a 'very significant increase'.

He noted that a lot of it also reflected movements from other sectors with a lot of the spending in other sectors going through credit cards.

Howai said just short of US\$6 billion in foreign exchange (exactly US \$5.899.4 billion) is sold each year in Trinidad and Tobago.

'That is more than all the rest of the Caribbean islands, including Jamaica,' he said. Asked whether he was committed to maintaining the current exchange rate, the Governor said this was not a question for the Central Bank.

He said this decision had to be made by the Minister of Finance 'in the other hall'.

'We provide a lot of the guidance on that in terms of information that could be used to determine whether we are at an effective exchange rate... We do the work that is required. But it is not a decision that we make. It is a policy maker's decision, made by people who were elected to make those

kinds of decisions. So we do not venture into that,' he said. The role of the Central Bank in the forex issue, included ensuring that there is as equitable a distribution as possible. 'Now equitable doesn't necessarily mean equal. Because different people have different needs. Somebody who needs to go on a holiday...needs to be classified differently from someone whose child is in hospital and needs urgent medical care...Equitable is trying to find some kind of mechanism which weighs the risks associated with different needs and come up with some kind of a system for distribution,' he said.

Howai said the next thing was that there needed to be more transparency in the distribution system, while preserving some confidentiality.

He said the public currently had more foreign currency reserves than the Central Bank itself.