

Economists say PM's meeting with banks on forex a good start



Economist Dr Marlene Attzs



Dr Vaalmikki Arjoon

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Economist Dr Marlene Attzs says Prime Minister Stuart Young's decision to speak with leaders of commercial banks on the country's foreign exchange issues is a good start, but the conversation needs to go beyond that.

Attzs said the issue is complex and the conversation should include the manufacturing sector as a forex earner.

"Also, I think this is a policy issue that has to be revisited in terms of how we allocate foreign exchange, given the dynamics that have taken place in the energy sector, that has led us to this situation where we have a shortage.

"I think this is the start of a conversation. It's not something that's going to be fixed between now and April 28, so it's not something that's going to be fixed in a few weeks, or a few months, because I think it requires an architecture that focuses on our ability to generate foreign exchange, which is one dimension of it. And then the process of the policy that guides the allocation of the foreign exchange."

Young said addressing the foreign exchange problem is a priority for him. He promised to update the country following the meeting which takes place tomorrow.

Attzs said the conversation with the banks should look at a structural approach to addressing a lack of foreign exchange.

“What I meant by the structural conversation is that we have to find additional ways to earn foreign exchange, notwithstanding our continued dependence on the energy sector, which is the primary source of foreign exchange for the country to consume.”

Another economist, Dr Vaalmikki Arjoon, said focus should be given to the distribution of foreign currency.

“What they’re likely to be discussing is the fact that it is a distribution problem with respect to foreign exchange, a distribution issue from the commercial banks with respect to the foreign exchange. We have a supply problem because of the lower energy production and that has led to a distribution problem or perceived inequity in any distribution of foreign exchange.”

Arjoon suggested that banks might be asked to dip into their excess forex to supply the local market, but this should be done cautiously so that the banks can meet their foreign-based debts and requests from customers wanting access to forex.

Attzs said the meeting should also focus on generating foreign exchange.

“There will also need to be a question of the manufacturing sector. I think one of the things that we need to look at is other ways in which we can capture foreign exchange and one of the things that I would have spoken about is how do we capture, for example, the orange economy,” she said.

“The Carnival sector that we boast about is large, and we have this influx of visitors. If you have an influx of visitors, it also means that those visitors are coming with foreign exchange. How can we capture some of that as part of the mix in terms of sources of generating foreign exchange?”

Like Attzs, Arjoon believes the manufacturing sector can be looked at as a source of forex as earning forex must be prioritised.

“Whoever forms the next government, they have to make it a top priority to earn more foreign exchange.

“I mean, outside of energy, the manufacturing sector holds good promise to help buffer to some extent, not fully, but to some extent, shortages of foreign exchange due to the downturn in energy production,” he said.

“We’ve seen since the pandemic the non-energy manufacturing sector grew by over 50 per cent.

Now, while this sector has indeed been improving, their export market share has been improving.

So, therefore, their earnings of foreign exchange have been improving. The problem is that it only accounts for seven per cent of the overall economy.”

Arjoon said there should also be a meeting with the private sector to address foreign exchange distribution.